

THE CONDITION OF THE FINANCIAL MARKETS

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON

THE CONDITION OF THE FINANCIAL MARKETS AND REGULATORY
RESPONSES FOLLOWING THE SEPTEMBER 11 TERRORIST ATTACKS

SEPTEMBER 20, 2001

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THE CONDITION OF THE FINANCIAL MARKETS

THURSDAY, SEPTEMBER 20, 2001

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:10 a.m., in room SH-216 of the Hart Senate Office Building, Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. The Committee will come to order. At the very outset, I want to ask all in the room to observe a moment of silence in remembrance of the many innocent people who have lost their lives as a consequence of these terrorist attacks, and in the hopes that the injured will fully recover.

[A moment of silence.]

Thank you very much.

We convene this hearing this morning in an atmosphere and with a focus very different from that which had originally been planned. Quite some time ago, this hearing was scheduled to begin a series of hearings on financial literacy, a subject which, at least in those days, we all regarded as of critical importance to Americans, and we were going to have it with the three principals in the financial markets—the Secretary of the Treasury, the Chairman of the Federal Reserve, and the Chairman of the Securities and Exchange Commission. The subject, of course, remains of importance and we will return to it at an appropriate time. Today, however, in the wake of last week's unspeakably savage attacks, we focus on the condition of the U.S. financial markets and the U.S. economy.

Nine days ago, we witnessed devastation that words are inadequate to convey. Someday, historians will catalogue, analyze, and calculate the terrible losses inflicted by the terrorist attacks directed at New York and Washington. But some losses—families torn apart, communities devastated—will remain forever beyond calculation.

At the same time, in the wake of these attacks, we saw the immediate response of firefighters, police officers, emergency rescue workers, and volunteers. It was a response of impressive resolution and courage, giving the world, as *The New York Times* in an editorial put it, “a vision of the valor and selflessness that is the best face of America.” None of us will ever forget their enormous contributions and I want to pay tribute to their steady courage and sacrifice here this morning.

It gave us an inspiring vision of calm determination, of steely resolve, and of unity in a common endeavor. Their example must guide us as we turn to the challenge of rooting out terrorism. They must also guide us as well, as we carry on with our fundamental responsibilities—caring for our families, educating our children, doing our jobs in a sustained and productive manner, reinforcing the fundamental strength of our economy, and of the financial markets whose functioning is essential to it.

In New York, the center of the Nation and, indeed, the world's financial markets, we can see a phoenix rising from the ashes. Given the wreckage in downtown Manhattan, many thought it possible that our markets would not be able to open for business as quickly as they did. The fact that they did and that the infrastructure held, on record volume, is a tribute to thousands of committed individuals in both the private and public sectors who went back to work under very difficult circumstances, having lost friends, colleagues, neighbors, and, in some instances, family members.

Our capital markets are the most effective in the world and our witnesses are to be commended, along with many others, for the role they played in ensuring that the United States' financial system continues to operate efficiently. New York remains the world's financial capital. The response of our witnesses here today and others to the crisis was coordinated, timely, and effective. They prevented a bad situation from becoming worse by taking decisive and carefully considered action.

This morning, we will hear in our first panel from the Secretary of the Treasury, Paul O'Neill. The Secretary has been detained, but will be joining us shortly, the Chairman of the Federal Reserve Board, Alan Greenspan and Harvey Pitt, the Chairman of the Securities and Exchange Commission. In the second panel, we will hear from the Chairman and the CEO of the New York Stock Exchange, Richard Grasso, the CEO of the Nasdaq Stock Market, Hardwick Simmons, and the CEO and President of the NASD, Robert Glauber.

As Chairman of the President's Working Group on Financial Markets, Secretary O'Neill has led the interagency coordination of the Government's response to the attacks on our financial center. Secretary O'Neill, the Administration's point person on fiscal matters, has also been engaged in evaluating the potential effects of last week's events on the U.S. economy and, in particular, on the airline and insurance industries. Under Chairman Greenspan's leadership, the Federal Reserve took several critical steps to ensure that the financial community was able to meet its liquidity needs. In addition, the Fed was in consultation with other central banks throughout the world, including the European Central Bank, the Bank of Canada, the Bank of England, and the Bank of Japan, and helped to coordinate the bank regulatory process here at home, along with other bank regulators. Securities and Exchange Commission Chairman Pitt has done, in my view, an outstanding job over the past 10 days in coordinating industry efforts to reopen the securities markets in the wake of last week's tragic events. Once the scope of damage to our financial community became clear, the SEC quickly issued the relief necessary to enable issuers, exchanges, and securities firms to get back into business. I am look-

ing forward to hearing about the activities of the agencies under the jurisdiction of our respective witnesses in detail as we move forward to the testimony.

I will withhold the introduction of the second panel until we actually have them before us. But we look forward this morning to hearing the assessment of our witnesses of the impact of last week's events on the condition of the financial markets, as well as the impact of the economy, the adequacy of our response thus far, and what more needs to be done.

And gentlemen, we welcome you before the Committee. I yield to the Ranking Member, Senator Gramm of Texas.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Well, Mr. Chairman, let me begin by thanking you for that wonderful statement and I would just like to identify myself with it.

Last week, we had a terrorist assault on two very visible symbols of America—American capitalism and American democracy. Terrorists obviously believe that by killing innocent people and destroying buildings, they can destroy ideas. But capitalism and democracy are the crowning achievements of man on this planet, and they are ideas that are not going to be killed. In fact, under assault, they become more powerful and more virulent.

I am proud of what we have done since that horrible event. It has brought out the best in the Nation. I would, Mr. Chairman, like to say just one thing about all the people who were killed in the financial center in New York.

We have a strange way, I think, of measuring importance in our society. If someone holds an office or is highly visible in some activity, we tend to attribute great importance to them. But the people who were working at the World Trade Center, in the very heart of American capitalism, through their activities, financially helped create millions of jobs and made a contribution far beyond that which most people are ever able to make during their lives. Our society tends to value too much what is done in the public sector and too little what is done in the private. Someone who creates a hundred jobs has probably done more to promote mankind than many who are often identified as great contributors to society.

I am proud of our fine financial markets. America is clearly not operating if its financial markets are not open. When our financial markets are open and our democratic government is functioning, America is alive and well. A lot of effort went into getting our markets open again. I want to congratulate Harvey Pitt and to thank Chairman Greenspan for his action in providing liquidity. I think, overall, given what happened, our markets performed as they always do—remarkably well—and it is a great testament to our system and how well it works. I have no doubt that while this is a setback in our current effort to get the economy moving ahead, it is a very temporary setback financially, and the economy will again be booming, and hopefully soon.

Chairman SARBANES. Thank you very much, Senator Gramm.
Senator Dodd.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Thank you, Mr. Chairman. Let me begin also by commending you for your opening statement and thank you for not cancelling a hearing that was going to be held on a subject matter that is not insignificant, but obviously, the importance of the events of the last week or so demand that we spend some time and attention on the subject matter that you have raised here today.

I am grateful as well to our witnesses who are taking some time away to appear before us, and particularly those who are coming up—I know Dick Grasso and Wick Simmons and others who will be here to share their thoughts with us.

To those of you in the audience who may be watching this, this does not look like there is a full attention of Members here. We should note that a substantial number of our colleagues, I think roughly half the U.S. Senate, is at this very hour on its way to New York to meet up there with officials in the city and to take a first-hand look at the tragedy. I know Senator Schumer, in particular, was torn about whether or not to be here this morning on a matter that obviously is of deep importance to him. But obviously, having been directly affected as he and Senator Clinton have, as our colleagues from the State of New York, have decided they should be there in New York and not here this morning. But he will have, I know, some comments that he would like to include in the record, Mr. Chairman, regarding this subject matter.

Let me just spend a minute on a thought or two if I could and echo Phil Gramm's comments as well. I have no doubt in my mind whatsoever this morning that our markets and our economy are going to rebound very strongly. Terrorists may have decided that they could destroy some buildings, but the idea, the naive thought that by destroying lives and buildings, you were going to somehow destroy the strength and vitality of U.S. financial markets is just not the case.

So if nothing else happens here this morning, I hope we can reassure those here at home and around the world that acts of cowardice and evil cannot and will not erode the strength or the backbone of the U.S. economy and our Nation's financial markets. The losses we have suffered here, the financial losses and the loss of these buildings are certainly of significance. But it is the obvious loss of some 6,000 people, and the thousands more who have been injured, not to mention the thousands more who will be injured not just physically, but the families.

I spent a good part of the last 2 days calling families in my State. We were not hit as hard as New York or Washington DC. I do not know the total numbers yet, but I was on the phone with about 40 different families in my State, many of them from Canterbury-Fitzgerald, who was particularly hard hit. Some of you may know that I have just been fortunate enough to be a father a week ago today. And to talk to some of these women who have children, 1, 2, maybe 4, or one woman who is about to give birth to a child, how do you begin to calculate the sense of loss that these people will feel for years and years to come. It is important that we talk about the financial implications. But I think all of us need to maybe state again here today and over and over again our deep,

deep concern for the human dimension of this as something that will live with us forever.

Mr. Chairman, I have great confidence and wonderful respect for the witnesses here. We could not be more fortunate to have Alan Greenspan chairing the Federal Reserve. I have said that over and over again. It has been important for a lot of reasons, probably never more important than it is today. And Harvey Pitt, who is new to this job, but certainly not new to the issues at all. We are very fortunate to have him chairing the SEC.

I have great confidence in our financial leadership in the country, as the Chairman has pointed out, and as Phil Gramm has. And we are going to hear from others as well this morning who will offer us some ideas of where things are. But, ultimately, for those who have any concerns about whether or not this economy or this country are going to survive this, let there be no doubt from this moment forward that we will rebound and we will be stronger than we were today. And so I thank you for being here.

Thank you.

Chairman SARBANES. Thank you, Senator Dodd.
Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Thank you, Mr. Chairman, I too would like to thank you for holding this hearing on the condition of our financial markets. Those of us from Colorado, our thoughts and prayers are with those who are affected by last Tuesday's tragic events, as we continue to go about the people's business.

As a free and open society, we will never be able to completely eliminate the threat of terrorism. But America is strong and I do not believe that any terrorist can undermine our country. There is no casualty figure that will come from this that will make us lose our fundamental purpose as a Nation and as a people. Despite their best attempts, terrorists have not undermined America. One clear example of this fact is the smooth functioning of our financial markets. And here is what I saw.

The World Trade Center has a number of major financial institutions. Many of them suffered devastating losses. Yet, they continue to do business. The New York Stock Exchange and the Nasdaq are located only a few blocks away from the World Trade Center. Despite difficulties with power, water, and transportation, trading resumed in a calm and orderly manner less than a week later. Bond markets and banks are also operating smoothly and the Federal Reserve acted quickly to inject liquidity into the financial system. The SEC also responded promptly and successfully.

Although markets are now functioning smoothly, I believe we can learn from these events to better prepare for the future. Such preparation is vital, not only for a potential terrorist attack, but it will also help ensure smooth market operation during natural disasters and other unexpected disruptions.

America is united and our financial markets remain the strongest in the world. Our hearts may be breaking, but our spirit and resolve is firmly intact. I am eager to hear from our witnesses

today and I thank you for being here during this difficult time. I look forward to hearing your testimony.

Chairman SARBANES. Thank you very much, Senator Allard.
Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman. And again, as my colleagues have stated, thank you for holding this hearing.

Chairman Greenspan and Chairman Pitt, thank you very much for being here. We would all rather not be here under these circumstances. We appreciate your leadership and what you have done in the last week.

The gravity of this hearing is as heavy as the grief that sweeps our Nation. I have been from one end of Michigan to the other in the last few days and while many of my friends and neighbors have not directly been impacted, we all grieve in the most profound way with what has happened. Many of us have friends and family who are directly affected.

The attack on September 11 was not just an attack on innocent Americans, it was also an attack on our financial institutions, and the economy as well. And while, as my colleagues have said, our first goal is to support the families and the victims, and to also find those who are responsible and hold them accountable, we simply cannot then shut down, or will not shut down. We must move forward and that is why it is important that we restore consumer and investor confidence and the strength and the resiliency of our financial institutions. And that is why we are here today and we thank the others that will be speaking today as well.

I found so many inspiring stories that have unfolded in the last week. And one of those was the story of Canter-Fitzgerald, who, despite having lost an astounding 700 of their coworkers in the attack on the World Trade Center, threw themselves into restoring their computer networks and communications and were back in business within 48 hours. If that is not the American spirit, I do not know what is. They went back to work, not because they were not devastated, but to honor their friends and their coworkers.

While we have had a string of bad economic news following the attack, I think it is important that we emphasize and reemphasize that the underpinnings of our economy are strong and functioning following this tragedy. Our banking system weathered this storm with little disruption or panic and I commend Chairman Greenspan for your quick decisions to reassert the discount window, that the discount window was available to meet liquidity needs and to lower interest rates before the market opened. We commend you very strongly for that.

I also appreciate the Federal financial regulators' swift work that helped maintain order and stability in our financial system. I also want to commend the many firms like Verizon and their employees who worked so hard on tight deadlines to restore the communications infrastructure that was crucial to getting our financial markets up and running again.

Despite the destruction, bond trading resumed last Thursday, as we know, and the stock market reopened on Monday, thanks to the

hard work of so many people, both within the Government and outside of the Government.

And now as we gear up against terrorism, and we know that this could last for years, we have to focus also on our economy because its strength is what gives muscle to our might. We must bring all the tools of fiscal and monetary policy to bear on getting the economy moving and easing the doubts of the business community and consumers. I work on the assumption that our system is fundamentally strong and that we will become even stronger, and I know our witnesses will bolster that sentiment today.

I would just say that as citizens of Michigan have asked me what they can do to help, in addition to the prayers that they are giving continually for the victims and their families and all those involved, I have said to them, when you finish giving blood, when you have given your donation to help the victims, go buy American. And from Michigan, we would like it to be an American-made car.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you, Senator Stabenow.

Senator Enzi.

STATEMENT OF SENATOR MICHAEL B. ENZI

Senator ENZI. Thank you, Mr. Chairman. And I do want to thank you for the rapid change of focus that you had so that we could hold this hearing and make it even more pertinent to the events that we just had.

I would also like to commend all of the witnesses today for the leadership that they have shown during the last 9 days. I do not think any of us can truly appreciate the monumental task it was to open the markets Monday morning. I would also like to commend the entire financial services industry for the commitment they have shown in working with regulators and each other during this trying experience. Their reassuring tone about the stability of our markets has been much needed to calm the fears of those who invest in America's financial systems.

If the stability and security of America's markets was ever in doubt, I do not believe anyone could doubt their stability after the September 11 experience. Few financial systems could have sustained the losses of New York City, the financial capital of the world, and after only 5 days, been back and running without any major glitches in the system. The quick responses by our market leaders are a major reason why systems have been phased so little.

Also, as an accountant, I am certain that the financial institutions of this country and following the money will be a key to digging out the terrorists and the activities that have happened, and that will play a key role.

I would also ask that my full statement be included in the record.

Chairman SARBANES. It will be included in the record.

Senator ENZI. Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much.

Senator Johnson.

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman, for your leadership over this past week.

It was just last Tuesday that Chairman Sarbanes and I sat together upstairs in the Banking Committee hearing room where my colleague had convened a hearing into the failure of the Superior Bank. I walked over from my office in the Hart Building just before 10:00 a.m., where I had just witnessed on television the unspeakable horror of the collapse of the first of the World Trade Center towers.

Despite that tragic backdrop, Senator Sarbanes insisted that we move forward with the hearing. The Chairman was defiant that the terrorists would not interrupt our work of overseeing the institutions that support the greatest economy in the world. Today, we continue that work.

Chairman SARBANES. I might add that the police came around and terminated our hearing.

Senator JOHNSON. Prudence won over defiance at that particular time.

Chairman SARBANES. Yes. It was designed to send a strong message that we were not going to let the terrorists bring the Government to a complete halt.

Senator JOHNSON. But today we continue that work, and we will hear from a distinguished panel about the condition of the financial markets following the events of last week. I expect that we will hear a great deal that will make us proud of our financial system.

As we all know, our Nation's financial players deserve our respect and thanks for what has been an around-the-clock effort to make sure that our markets have functioned as smoothly as possible. We will also, I expect, learn more about the critical role our financial regulators play in keeping our system strong.

Today, I hope that we can reserve some time to thank our regulators for the hard work they do every day to make sure that our system can withstand attacks in whatever form.

As Chairman of the Financial Institutions Subcommittee, I intend to spend a great deal of time over the coming months taking a look at our Nation's banks and financial institutions. And while we have so much to be proud of, our system is strong because of our constant vigilance.

We have a responsibility to learn as much as we can from the lessons of this past week to make our system even stronger. We should identify areas where we can do better, and have an open discussion between industry and Government to determine how we can work together on these issues.

I am proud of the way that our Government has responded to last Tuesday's attacks. And while nothing we can do in any way compares to the heroism we have seen in our firefighters, police officers, and rescue workers, we have had an important role to play in responding to this terrible crisis.

I want to take just one moment to mention my Unity Bonds proposal, which the Senate passed last night. As we in Congress know, many of the best ideas come from our constituents. I am pleased to give credit to a citizen from my State of South Dakota who called my office to ask if he could buy bonds to show his unity with

the victims of terrorists and to support our struggle against those terrorists. Based on this constituent's idea, I introduced legislation which directs the Treasury Department to issue Unity Bonds. The revenue raised from these bonds is to be used to fund our recovery efforts from last week's attacks and also to fight our ongoing war against terrorism.

I am pleased that the Senate passed this measure last night, just 3 days after I introduced it, and I intend to continue working closely with my Democratic and Republican colleagues to make sure that this legislation is in fact enacted into law.

I have received an overwhelming response from constituents who want to know when they can invest in America through Unity Bonds. One county commissioner from New York even called to find out whether Unity Bonds would be available in time for a drive they are having this week to encourage people to invest in America through Savings Bonds. And just yesterday, I would note that a major credit card bank announced its intention to purchase \$10 million of these bonds as soon as they become available. America deserves leadership that can work together, and leadership that can work quickly.

Mr. Chairman, this hearing will allow the Senate Banking Committee to identify ways that we can respond to the needs of our financial institutions and the markets. I look forward to hearing from our witnesses and to working with my colleagues in a bipartisan fashion to respond to the issues that we can identify today.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you, Senator Johnson.
Senator Hagel.

COMMENTS OF SENATOR CHUCK HAGEL

Senator HAGEL. Mr. Chairman, thank you. I want to thank the private and public leadership of our country, including our witnesses this morning. That leadership represents the strength and goodness of this country.

Mr. Chairman, thank you for allowing us an opportunity to have this leadership representing the dynamics and the strength of our country to come before us today, and I look forward to their testimony.

Thank you.

Chairman SARBANES. Thank you very much, Senator Hagel.
Senator Bayh.

STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. Thank you, Mr. Chairman. I know I speak for myself and everybody else in the room when I say we are looking forward to hearing from our distinguished guests today, so I will make three very brief points.

First, to echo the words of my colleagues, I want to thank the gentlemen who are with us for your leadership during this difficult time. Consumer and investor confidence is Topic A right now and I cannot think of a greater source of reassurance for the American people than to have men of your stature and experience in the positions that you currently hold. So I want to thank you for your service to our country.

Second, the events of the past week should remind all of us of the resiliency of the financial markets and the economy of this country, but also of the global interdependence and possibly some of the vulnerabilities of our systems. And I know that we will go forward from here to focus on those to make sure that we are prepared to meet any future contingencies of this unfortunate type.

Finally, I would just like to say, once again speaking to the confidence of the public, the long history of this country should give all of us optimism about the future. We have overcome civil war, world war, periods of great depression, social instability, even the assassination of some of our country's leaders, and yet, the American economy and people have thrived and overcome. And I am confident when the history is written about the events of the past week, this will be another episode in the resiliency of the American people as we move forward to an even more prosperous and secure society. And again, I want to thank you for your leadership during these difficult times.

Chairman SARBANES. Thank you very much, Senator Bayh.
Senator Bunning.

STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. Thank you, Mr. Chairman.

I would like to thank you for holding this very important hearing today. And I would also like to thank our witnesses for testifying today and for their leadership in reopening our markets. The Nation and the world owe you a debt of gratitude.

I cannot put into words the sorrow that I and the people of Kentucky feel. We are sad, confused, frightened and angry. Our deepest sympathies go out to the victims, their families, friends, and everyone who has been affected by this tragedy. But I also cannot put into words the pride we all feel.

Our Nation has responded. The overwhelming generosity and patriotism both at ground zero and all over this country have moved me in a way that I cannot articulate. I commend all of you for your Herculean efforts to reopen our markets on Monday. It was very important to show that we have the will to open the markets in spite of the threats and attacks.

I would like to start by commending Dick Grasso, not just for the leadership he has shown in getting his market open, but for giving the Amex space in his building to operate their market. I am not sure the American people are aware of that fact. By allowing the Amex to compete in the facilities shows the cooperation that we have on Wall Street and our Nation's commitment to free and open markets.

I would also like to thank Mr. Simmons and Mr. Glauber for their hard work and for all the assistance they have given. I cannot say enough about Harvey Pitt. We knew we had the right man for the job when President Bush sent your nomination up here to the Congress. But if anyone had any doubts before, surely they have been erased. Now, just knowing that you were on the watch last week made me and countless others in the financial community feel better.

I would also like to thank Secretary O'Neill and the Department of Treasury for their swift response and decisive action, both in the

extensive law enforcement actions and also in the smaller moves, such as the tax relief steps the IRS has taken. The last things that the victims or their families should have to worry about right now are taxes.

Finally, it is no secret that I am probably the biggest critic of Chairman Greenspan on this Committee, and maybe in the entire Congress. But I must commend the Fed's action, starting last Tuesday. Opening the discount window, stabilizing currencies, and the 50 basis-point rate cut were bold and necessary moves that you should be commended for.

I should like to note that our other markets were open last week, also. The Chicago Board of Trade and the Chicago Mercantile Exchange were both open last week and the bond market also did a fantastic job in getting back to business last Thursday. Thank you, Mr. Chairman, and thank you for holding the hearing.

Chairman SARBANES. Thank you, Senator Bunning.
Senator Carper.

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you, Mr. Chairman.

Mr. Secretary, I know you have missed most of the opening statements. We are glad that you are able to join us here.

Senator GRAMM. We could repeat them.

[Laughter.]

Senator CARPER. I was thinking of doing that myself.

[Laughter.]

But I will not. A lot of eloquence here at this table and a lot of excellence at the table of witnesses. Just to sum up, and then we are anxious to hear from you, I think there are really four daunting tasks that face us as a Nation coming out of the tragedies of the last week.

One of those is one that Senator Dodd has alluded to. I have been comforting, seeking to comfort the families in my little State who have lost loved ones and to help them begin the difficult task of rebuilding their lives. The President will talk tonight about the efforts underway to track down and to ferret out those who have perpetrated these crimes and to bring them and those who harbor them to justice. Down the road, we will begin rebuilding the physical structures that have been destroyed in Northern Virginia and New York City. And last week, we began, literally within hours of the destruction of the World Trade Centers and the loss of all those lives, the hard work of revitalizing an economy that was already on tenterhooks. As important as the President's comments are this evening, and I look forward to hearing those comments as he addresses a joint session of the Congress, your comments today are equally important.

We are, as Senator Bayh has said, fortunate indeed to have a team, not just as highly regarded as the one that is assembled before us, but a team that is as able to work effectively as you have and the leadership that you have provided in the last week. Thank you for joining us today. Thank you again for the stewardship that you have provided for our Nation.

Chairman SARBANES. Thank you very much, Senator Carper.

I want to underscore for the record the comment that Senator Dodd made, and that is that there is a Senate delegation that went to New York today. And many of the Members of this Committee who are not here for this hearing are on that delegation trip. And I just wanted to make sure that that was understood.

Secretary O'Neill, we are very pleased you are able to join us. I know you were detained by an important meeting. We are pleased to have you and Chairman Greenspan and Chairman Pitt here with us. Mr. Secretary, I think we will start with your statement and then move right across the table to Chairman Greenspan and Chairman Pitt. We will be happy to hear from you.

**STATEMENT OF PAUL H. O'NEILL, SECRETARY
U.S. DEPARTMENT OF THE TREASURY**

Secretary O'NEILL. Thank you very much, Mr. Chairman, and Members of the Committee. I am sorry I was detained. I was in a National Security Council meeting, which we are having quite a few of these days as we assemble information and make plans for actions that need to be taken. So I hope you will forgive me for being a few minutes late.

Chairman SARBANES. Certainly.

Secretary O'NEILL. I understand your opening statement was really quite good and touching, and I thank you and other Members for the things that you have said. For myself, I do have a prepared statement and with your permission, I will simply submit it for the record.

Chairman SARBANES. It will be included in full in the record.

Secretary O'NEILL. And then I think maybe I will open myself up for questions.

But at the beginning, I would like to say to you how proud I am of my organization and Alan's organization and Harvey's organization. And you all mentioned Dick Grasso and the people at the New York Stock Exchange, and Wick Simmons of Nasdaq, and Sal Sodano at American. And I do not know whether anyone mentioned before I came, but all of the firms that make up the markets that were involved in this restart effort.

The communications companies, Verizon. The police and the fire people who were working, especially in downtown New York, were all part of this fabulous recovery process that allowed us to demonstrate to the world that while we took a direct hit in our financial district, we were able to reopen the symbol of America's economy in very short order. And frankly, I think we did it in just the right time. There were some voices who were clamoring for opening on Wednesday or Thursday or even Friday. I think the right set of judgments were made. We made sure that we would not have a false start.

I must tell you, if I had known on Monday morning that we would have the largest day of trading in the New York Stock Exchange as measured by volume that we ever had, I would have had a bigger lump in my throat than I already did. But we did it. And I say that in the fullest sense—we, the American people, did it. And I think we should be proud that we have gotten restarted and we have demonstrated we can do it. It is awfully hard not to also say one additional thing. Monday morning, when Harvey and I

were in New York for the restart, it was a very emotional, touching time, and those of you who saw it on television probably got a sense of the emotion radiating out of those faces that were on the floor. But when we went down on the floor after the restart, people just wanted to reach out and touch and say, thank you and God bless you, and tell the President he has our prayers.

It is difficult that tragic events bring us together. For sure, they have done that. And not just those of us in the United States, or those of us who were privileged to have been on the floor Monday morning. But every communication from countries around the world has been not only comforting and reassuring and indicating every possible support, but ready to move into action as soon as we tell them what we want them to do. So, I think off of this terrible tragedy, we are seeing the best of society around the world, coming together with a determination that we will persevere and we will prevail.

Thank you, Mr. Chairman.

Chairman SARBANES. Well, thank you, Mr. Secretary.

Mr. Secretary, I am going to impose on you to just take a moment or two. I think it would be helpful if you would on the public record—if you would do the parts of your statement concerning the Government securities and the fixed-income markets, and the part on the Treasury response with respect to the IRS. I think there are a lot of people watching this hearing this morning and I think if we can just lay that out for the public record.

Now you also reviewed what the other regulatory agencies could do. I think we can forego that because, presumably, we will be hearing from both Chairman Greenspan and Chairman Pitt about the activities of their respective agencies. But I think we want people to understand what is being done and how concerns and needs are being addressed. If you could take an extra moment to do that, I think it would be helpful.

Secretary O'NEILL. All right. Mr. Chairman, would you say again? Government securities and which other areas?

Chairman SARBANES. Then the Treasury response over on page four, your IRS tax guidance.

Secretary O'NEILL. Okay.

Chairman SARBANES. And your enforcement things. I think that that would be important. And you might want to say just a word or two about economic recovery and impact, although I am sure we will get into that in the question period.

Secretary O'NEILL. Thank you. The Treasury has successfully adjusted its financing needs in the face of the recent market disruptions. The Treasury and the other regulatory agencies worked closely with the Bond Market Association to reestablish an active and orderly fixed-income market.

Following a recommendation by the Bond Market Association to close the market on Wednesday, September 12, trading resumed in all fixed-income markets on Thursday, September 13. Further, Treasury was able to execute a successful auction of 3- and 6-month Treasury bills on Monday, September 17, with 24 of the 25 primary dealers participating.

And I would say we see going forward no concern at all with being able to do appropriate and necessary Government financing.

The markets are there. They are deep. And so we are up and running and we will continue to do so.

With regard to the Treasury response and specifically IRS tax guidance, the IRS and Treasury are providing relief to all taxpayers directly affected by the terrorist attacks. This relief includes extending the time for filing tax returns and extending the time for making estimated tax payments. The victims of the airplane crashes—on the ground and in the air—taxpayers whose workplace or whose records are in a disaster area, relief workers, and taxpayers in all five boroughs of New York City, and in Arlington County, Virginia, the location of the Pentagon, are among those who qualify for this relief. In addition, the IRS and Treasury are providing relief to taxpayers unable to meet tax deposit obligations because of damage or injury inflicted by the terrorist attacks.

Furthermore, for all taxpayers, the IRS has postponed until September 24, the due date for all Federal tax obligations other than deposits of Federal taxes, that otherwise would be due between September 10 and September 24. This postponement includes, for example, the filing of returns and the payment of estimated taxes.

In the enforcement area, Treasury has established an inter-agency team dedicated to the disruption of terrorist fundraising. The team is designed to increase our ability to identify foreign terrorist groups—and I would further say, individuals—assess their sources and methods of fundraising, and provide information that will make clear to law enforcement officials how terrorist funds are moved. This team will ultimately be transformed into a permanent Foreign Terrorist Asset Tracking Center in the Treasury Department's Office of Foreign Asset Control. This is an extraordinary effort that illustrates the Treasury Department's creativity in developing new ways to combat terrorists. And I would offer one other thing for the record on this subject.

We have resolved that we are going to take an intensive effort to deal with terrorist fundraising like it is never been done before. We have assembled, and will continue to add to a list of known terrorists and suspected terrorists of individuals and fundraising organization who, through intelligence activities, we know have provided financial support. And we for the first time will systematically use all the information, intelligence assets, that are at the disposal, not only of our Government, but cooperating governments around the world, to begin a closing down of bank accounts, asking other governments to block accounts, and where there is enough evidence to do it quickly, to confiscate amounts that are in these accounts so that rather than deal at a high level of abstraction, we are going to go after individuals' individual accounts, and we are going to begin today.

On the subject of economic impact, my prepared testimony has quite a bit here. And I would summarize my view this way. There is no doubt that we have had and are having economic dislocations. Some of them are very obvious.

Closing down the Nation's airways for a period of time has a severe impact, not only on that industry, but on industries that depend on air service to move parts and supplies and communications. And that is an important dislocation and there are collateral dislocations that flow from that that we all know about.

There are obvious questions about the terrorist-inflicted financial damage that will be reflected back into insurance company and re-insurance company processes. And I think we need to look at those very carefully.

If you step back, if it is possible to step back, and look at our economy in a broader sense, going back to September 10, and then looking at the prospects going forward, I believe this. I do believe that we were beginning to see the encouraging signs we were all looking for and hoping for that our economy was going to start growing at a better rate in the days and maybe few weeks before September 10.

I have heard so many times in the last few days, America The Beautiful. And I think about the amber waves of grain. And I remind myself that the amber waves of grain did not stop growing on September 11. And it is a metaphor for saying that there are a lot of strengths in the American economy. I think we all have a sense of a damaged personal spirit and maybe a hole in our heart that is never going to get repaired. There is still a great strength and resilience in this American economy. And I think, as I understand Chairman Greenspan counseled some Members of Congress yesterday, that we need to be sensitive to needs that may develop for additional Federal stimulus in one way or another. We should give ourselves 10 days or 2 weeks to assess what is going on.

Yesterday I talked to one of the major credit card companies and they told me that on a year-to-year basis, their credit card activity was off 20 percent in the period since a week ago Tuesday. I think that is clearly to be expected because people stayed home and looked at their television. They were heartbroken. But we will recover. We need to be, on the one hand, deliberate. Where necessary, we need to act with speed. I think there is no doubt that the airline industry has a cash liquidity squeeze and we need to respond to that. But I think it makes very good sense that we respond with deliberate speed to items that are emergent and that we give ourselves a consolidation period to think carefully about what we should do.

And then my own view is this, and I know this is very difficult because our process has an endless list of things that people would like to do that have been paraded through the weeks, months, and years and they are kind of the favorite chestnuts. I believe that this situation and these events are sufficiently serious, that we should be really careful and deliberate in assessing what the needs are, and then responding to the real needs, not to the off-the-shelf political things that have been paraded around and we have all debated and argued about. And I think it is possible to do that. I hope it is possible to do that because it will demonstrate that we are really together, and that we are focused on the things that should bring America together. And to the degree that we need to provide additional things, it should be first about what is good for America, not what is good for some group or some interest that is always there waiting.

Chairman SARBANES. Thank you very much, Mr. Secretary. I am glad we were able to draw you out a little bit with, in effect, a supplementary statement, which I think was enormously helpful to the Committee.

We will take the other two statements before we go to the question period.

So, Chairman Greenspan.

**STATEMENT OF ALAN GREENSPAN,
CHAIRMAN, BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**

Chairman GREENSPAN. First, let me associate myself with the remarks of the Secretary. And I agree that he is raising some very fundamentally important questions which relate to how this Government functions and should function.

I would also like to associate myself with everything that has been said by you and the Committee. This is an extraordinary time and I think we are all deeply touched. Indeed, I would like to begin my remarks this morning by noting how deeply saddened I and my Federal Reserve System colleagues are that so many talented and productive people from so many walks of life were lost or irreparably harmed last week. Although we are here today to discuss some of the immediate economic and financial implications of that tragedy, we are all too aware that the topic we discuss will be a mere footnote.

The terrorism of September 11 will, doubtless, have significant effects on the U.S. economy over the short term. An enormous effort will be required on the part of many to cope with the human and physical destruction. But as we struggle to make sense of our profound loss and its immediate consequences for the economy, we must not lose sight of our longer-run prospects, which have not been significantly diminished by those terrible events.

Over the past couple of decades, the American economy has become increasingly resilient to shocks. Deregulated financial markets, far more flexible labor markets, and, more recently, the major advances in information technology have enhanced our ability to absorb disruptions and recover.

In the past, our economy has quickly regained its previous levels following the devastation of hurricanes, earthquakes, floods, and myriad other natural disasters that periodically better various regions of our country. Although the trauma of September 11 shares some characteristics with such disruptions, the differences are important. In contrast to natural disasters, last week's events are of far greater concern because they strike at the roots of our free society, one aspect of which is our market-driven economy. All modern economies require the confidence that free-market institutions are firmly in place and that commitments made today by market participants will be honored not only tomorrow, but for years into the future. The greater the degree of confidence in the state of future markets, the greater the level of long-term investment. The shock of September 11, by markedly raising the degree of uncertainty about the future, has the potential to result, for a time, in a pronounced disengagement from future commitments. And that, in the short run, would imply a lessened current level of activity. Indeed, much economic activity ground to a halt last week.

But the foundations of our free society remain sound, and I am confident that we will recover and prosper as we have in the past. As a consequence of the spontaneous and almost universal support

that we received from around the world, an agreement on a new round of multilateral trade negotiations now seems more feasible. Such an outcome would lead to a stronger global market system. A successful round would not only significantly enhance world economic growth, but also answer terrorism with a firm reaffirmation of our commitment to open and free societies.

But before the recovery process gets under way, stability will need to be restored to the American economy and to others around the world. Arguably, that stability was only barely becoming evident in the United States in the period immediately preceding the acts of terrorism. Aggregate measures of production, employment, and business spending continued to be weak.

That said, consumer spending moved higher in August and appeared to be reasonably well maintained in the first part of September. Industry analysts suggest that motor vehicle sales were running close to August levels, and chain store sales were only modestly lower. Purchasing managers had noted an improvement in the orders picture in August. Moreover, the dramatic rate of decline in profits was slowing. To be sure, these signs were tentative, but, on the whole, encouraging.

During the past week, of course, the level of activity has declined. The shock is most evident in consumer markets where many potential purchasers stayed riveted to their televisions and away from shopping malls. Both motor vehicle sales and sales at major chain stores, some of our most current information on consumer spending, appear to have fallen off noticeably. And, the airline and travel industries have suffered severe cutbacks.

The unprecedented shutdown of American air travel and tightened border restrictions have induced dramatic curtailments of productions at some establishments with tight just-in-time supply chain practices. Automakers, for example, are reported to have pared production and even closed some plants in the past week, largely owing to supply shortages, though, doubtless, short-term demand uncertainties have also played a part.

The effect on financial markets of the devastating attack on the World Trade Center was pronounced, as telecommunications and trading capacities were severely impaired. But the markets are mostly functioning now, albeit in some cases using contingency arrangements, and, as in the past, the infrastructure will be rapidly restored.

For a brief time, the terrorist attack markedly disrupted payment transfers that are usually measured in terms of trillions of dollars each day. Many obligators temporarily lost their technical ability to pay on time, leaving those counting on receiving payments caught short. The pressures ultimately ended up concentrated in banks. Those needs were met by the Federal Reserve, both through record lending at the discount window and through an extraordinary infusion of funds through open market operations. To facilitate the channeling of dollar liquidity to foreign financial institutions operating in the United States, 30 day currency swap lines were arranged with major central banks, again in record volumes. It was essential in such an environment to meet all appropriate demands for dollar liquidity. As the financial markets and payment infrastructure return to normal, loans are being repaid,

and the temporarily bloated balance sheet of the Federal Reserve is now shrinking back to normal.

Nobody has the capacity to fathom fully how the tragedy of September 11 will play out. But in the weeks ahead, as the shock wears off, we should be able to better gauge how the ongoing dynamics of these events are shaping the immediate economic outlook.

For the longer term, prospects for continued rapid technological advance and associated faster productivity growth are scarcely diminished. Those prospects, born of the ingenuity of our people and the strength of our system, fortify a promising future for our free Nation.

Thank you very much, Mr. Chairman.

Chairman SARBANES. Thank you, Chairman Greenspan, for a very thoughtful statement.

Chairman PITT.

STATEMENT OF HARVEY L. PITT, CHAIRMAN SECURITIES AND EXCHANGE COMMISSION

Chairman PITT. Thank you, Chairman Sarbanes.

Chairman Sarbanes, Senator Gramm, Members of this Committee, I very much appreciate the opportunity to offer the perspectives of the Commission on the condition of our financial markets following the terrorist attacks of September 11.

I would like to say before I begin how very important and very reassuring it is to have had the support of this Committee. I spoke with many of the Members of the Committee and I have had the insights of many of the Members of this Committee, which were invaluable. And I would like to compliment Secretary O'Neill for the leadership that he and the Department of Treasury have provided. And Chairman Greenspan and Vice Chairman Ferguson for their wisdom and their insight into the markets.

The attacks that we are here to discuss caused irreparable loss of life and untold physical damage. Like many of you, I lost people I cared deeply about and had known for decades. But these attacks did not destroy or diminish our strength, courage, or resolve.

We grieve for lost friends and relatives. But we also should be proud of the Nation's extraordinary responses to these events because they demonstrate that our capital markets are the world's strongest and most resilient and, above all, they reflect enormously well on our national character.

These attacks did not arise in a vacuum. So we at the SEC coordinated our efforts with the larger Federal Government, of which we are but a part, and we work cooperatively with the industry that we oversee. This Committee has the ability to pass upon the public leaders. The leaders of our private markets are not selected by this Committee or by the Government. I do want to say that the esteem and respect that I have for Dick Grasso, Wick Simmons, Frank Zarb, Bob Glauber, is enormous. These people rose to the occasion and they truly epitomized what is great about America.

At the Commission, we embrace two critical roles. First, to assist in implementing national policy. And second, to evaluate and then facilitate the industry's planned responses, while ensuring fidelity to the protection of investors and national interests.

We, along with our colleagues from Treasury, traveled to New York on Wednesday to meet directly with the leadership of major markets, securities firms, banks, and clearing agencies, representatives of the New York governor and New York mayor, as well as Con Edison, Verizon, and the New York Fed. We assessed the industry's readiness to reopen the markets. Despite the broad powers that this Committee had given our agency, we did not dictate a result. Rather, we facilitated an appropriate market solution. The decision when to reopen the markets was made by the private sector, in consultation with us and subject to our review. But it was a private-sector decision.

On Thursday, the fixed-income and futures markets successfully resumed trading. That same day, industry representatives unanimously decided to reopen equity and options markets on Monday, not Friday. Deferring the resumption of trading until Monday permitted extensive testing of systems operability and connectivity. Throughout the weekend, our staff worked with market and industry participants, verifying that systems were sound and operational. We reached out to major market participants to formulate appropriate temporary regulatory relief, to facilitate the reopening of fair and orderly markets. For the first time we invoked the emergency powers that you bestowed upon us and we issued several orders and an interpretive release to ensure an orderly market under these extraordinary circumstances.

Government is and must be a service industry. So we made certain we were accessible both to investors and to market participants. We placed additional information for investors and market participants on our website and we established telephone and Internet hotlines for both. I believe this is the first time that we provided hotlines for industry participants. We have done this in the past for investors. And we assured industry participants that they could bring us their problems and that we would work with them to find solutions without recrimination, except in cases of venality, and of course, there were none. The result of these efforts was evidenced on Monday when all of the U.S. securities markets resumed trading without incident. Investors once again relied on the strength and the soundness of our markets.

All market and investor protection systems were squarely in place. The markets did not give way to panic-selling and the extra time taken before resuming trading gave investors an opportunity to reflect and to speak out about the strength of America's markets. And the world heard them loud and clear.

I appreciate this opportunity to present our views and in closing would like to recognize again the leadership and wisdom that my colleagues here provided for us, to make special reference to the other Commissioners at the Commission who were very supportive and helpful in all of this, and to a very wonderful, knowledgeable, and dedicated staff that worked all the way through the weekend, giving of themselves time and time again to help us work with the private sector to get our markets in full operation.

Thank you, Mr. Chairman.

Chairman SARBANES. Well, thank you very much, Chairman Pitt.

I say to the Members of the Committee, given the large number of Senators that are present, we will have 5 minute rounds.

First, I want to again commend the Treasury, the Federal Reserve, and the SEC for their response to this situation. All of your agencies have highly skilled, expert people, and that talent was brought to bear. That, in the end, is really the basic strength of our country, in both the public and the private sector. And we know that people worked all night, over the weekend, and everything else in order to try to address this situation. I want to underscore our appreciation to them.

Second, I want to commend all of you for your consultation with the Congress, which was immediate and continuous, and I think is very helpful in enabling us to make sure that we have a unified view on matters, which I think was important in these days in helping to restore matters.

Now I am reminded a bit of the advice, the medical advice—do no harm—as the first guiding principle. I think my colleague, Senator Gramm, has used that advice.

Senator GRAMM. I have not lived in vain here.

[Laughter.]

I have not lived in vain here. The Lord's name be praised.

[Laughter.]

Chairman SARBANES. And Secretary O'Neill, in your supplementary statement, you indicated your sort of view about being careful—prudent, I think, would be the right word—prudent now with how we move with respect to one or another of the economic proposals that are before the Congress.

Chairman GREENSPAN, you came up yesterday and participated in a meeting with the Congressional leadership in which you addressed that subject. And it is reported in the morning paper, but I would invite you to take a few moments now to give us your view on that matter as well, if you would.

Chairman GREENSPAN. Mr. Chairman, What we know about a situation such as this is that there are a combination of forces impinging on the American economy which we cannot at this particular stage disentangle. Most importantly, we know that there is a combination of infrastructure problems and technical and physical breakdowns that have occurred. And until we can see what the economy looks like without them, appropriate policy initiatives, in my judgment, are premature.

We have a very complex, sophisticated economy and even the slightest aberration ricochets throughout the system. And when you have a devastating impact on the financial system such as we have been discussing here today, until it works its way through the system, until all institutions are up and functioning, until we find that the just-in-time supply problems which have been occurring as a consequence of the air traffic problems and the border closings, which are not irrelevant to this issue, we will not be able to separate what the underlying demand and supply factors are. And it is they to which we must adjust policy.

We know that the infrastructure problems will all be restored, and balance, insofar as the mechanism of the economy is concerned, will be rapidly back in place. But we cannot tell at this stage which is a physical problem which will be reversed in a manner similar to a hurricane or a flood, and which is a more deep-seated, underlying problem.

And it is the latter, as I indicated, that we have to address. And what I said to your colleagues yesterday essentially is that we will know in a reasonably short period of time—the Secretary has said 10 days, a week to 10 days, a little longer. It may be a little longer, but not much longer. And I would strongly suggest that while there is obviously, a very strongly desired sense to move rapidly, that it is far more important to be right than quick.

Chairman SARBANES. I think we ought to underscore that there have been a number of policy measures taken over the course of this year, the Fed in successive reductions of the interest rates, the tax rebate that is now going out, and now there is going to be a fiscal stimulus from investment programs to recover—I mean spending programs. Some of those policies I do not think have had a full chance to work their way through. Presumably, they are providing, or were providing, and will continue to provide, some lift to the economy. So it is not as though those policies had fully worked their way out—well, let me ask you.

Can we reasonably look at the situation and say that the impact of those policies may well still be working its way through the economy in terms of giving it a lift in this context?

Why don't we hear from both Secretary O'Neill and Chairman Greenspan on that?

Secretary O'NEILL. I would say that there is no doubt that as a consequence of the actions that the Federal Reserve already took before September 10, and the coordinated action taken by the Congress to enact the tax program, including the rebate program, have left the economy in much better shape and more than there would have been without these coordinated fiscal and monetary policy actions. So I think what you say is very wise. We need to remember what was already in place as we assess what else we might and should do.

Chairman SARBANES. Yes.

Chairman GREENSPAN. I might just add, Chairman Sarbanes, that that does not mean that future actions are not going to be required, nor does it suggest that some of the immediate actions, for example, focused on the airline industry, are not appropriate. Indeed, they are, because as I indicated earlier, one of the remarkably sensitive problems we ran into was the extent to which essentially shutting down the American air space bottled up a huge amount of economic activity all over the country.

This was not strictly a New York City issue. I think that bringing the airlines back—I must say air freight has now come back quite considerably but there is a whole structure of this economy which rests on air travel which is important that we bring back as quickly as possible.

So what the Secretary and I have been saying does not preclude fairly expeditious action on certain issues. I think the point the Secretary is making, and which I concur in fully, is that it is very easy in a period such as this, in haste, to do things that, in retrospect, are not right. I do not think that waiting a short while really materially alters the impact of whatever is done on the economy's pattern of growth over the next several quarters.

Chairman SARBANES. Thank you very much. My time is expired. Senator Gramm.

Senator GRAMM. Thank you, Mr. Chairman.

Let me just pick up where the Chairman left off. The way I look at our situation is that Tuesday, a week ago, things happened that made all 285 million Americans poorer, whether we are talking about human suffering or about the decline in the value of somebody's teacher retirement program, or whether it was a salesman who found a dramatic restriction on their ability to travel for business purposes. The plain truth is all 285 million people in America, and really, everybody in the world, is poorer.

The problem we face is that since any assistance we give to anybody comes from the same 285 million people, we are incapable of indemnifying everybody. And for everybody we indemnify, we make everybody else poorer than they were before the indemnification. So the question is, what is the cut-off point?

With the airlines, there is no doubt that the smartest decision made Tuesday a week ago was to bring every plane down at the nearest airport—that was a very smart decision. The disruption, the cost, imposed on airlines was immediate. But the question is, when you get beyond those very narrowly defined costs, if you go too far, then how do you justify not providing assistance to Boeing, or to hotels, or to restaurants, or to people who lost in teacher retirement? The point is, where do we draw the line?

Now as I look at the Administration's proposal for the airlines today, if you look at actual losses to this point, you proposed assistance at roughly twice that amount, now knowing that there are going to be losses in the future. I want to pose a question, but I want to ask everybody if they agree with the thesis.

This idea that we could somehow settle into a new equilibrium where there is 80 percent of air traffic as compared to before, is very dangerous. If I knew that we were going to end up a year from now with 80 percent air traffic, I would know we were going to have a recession. The 1 percent of the people who engage in business travel probably create 20 percent of the gross domestic product of America. So that idea is unthinkable. Rather than bailing out airlines in the future, we need to get them flying. We need to invest in safety. We need to rebuild public confidence, and I believe it will come back.

Now, given where we are with the \$5 billion that was proposed in the insurance indemnification, Secretary O'Neill, do you believe that we need a loan guarantee, or do you believe that the direct cash assistance is enough so that the airlines that could have made it, will find that they are now capable of getting loans?

Secretary O'NEILL. Well, Senator, as I said earlier, I think in this extraordinary time, we should be very direct about what we are going to do and what we think we need to do.

A loan is in fact a financial instrument that has an economic value. I personally favor during these extraordinary times not dealing with veils and third-order derivatives, if you will, for people who know what that means. I favor—if we are going to give people money, we ought to give them money. And to the degree that there is a belief that we should give the airlines more money for some other reason, I think we should give it to them directly. Now, if you do not mind, I will tell you what I think we should do for the airlines.

First of all, to this point of analysis, we need to understand what the problems are and what it is that we need to do to get back to a market-determined rate of activity in the airline business. I would submit to you there is a liquidity problem. We need to give \$5 billion or so in liquidity assistance to the airlines. We have talked about devices for doing that and I think we are coming to agreement.

Second, I believe that we need to socialize the cost of air safety. By that I mean the Federal taxpayers need to pay for the safety that will assure the public that when they get on an airplane, they are going to go where they paid to go, without risk of life and limb. It seems to me it is a very straightforward proposition and we should have probably gotten to it earlier.

And finally, in order for the airline companies individually to be economic enterprises, they need to be in a position that they are responsible for things gone wrong that are within their control. And to the degree that that means we have to socialize the cost of insuring against terrorism, we need to do that. But as we do that, we should be the back-up guarantor. We should not interfere in the regular process of commerce. I think if we provide necessary liquidity and if we assure the safety of people who travel by air, that companies that are truly viable will have no problem getting capital infusions from ordinary capital markets.

So my counsel would be, as we work on these problems that have come from this tragedy, that we separate out the things that need to be done that are directly associated with this crisis and that we not in the process of caring so much, make the mistake of federalizing industries like the airline industry.

Senator GRAMM. If I could just get a yes or no from Secretary O'Neill and Chairman Greenspan. I assume that both of you would strongly agree with the thesis that, if we did loan guarantees, we ought to have a board that has the responsibility of not making loans they believe cannot be paid back, and that we should guarantee only a portion of the loan so that the lender has some due diligence and something at risk.

Do you both agree with that and agree with it strongly?

Secretary O'NEILL. Certainly, I do. The idea of a loan guarantee suggests that there is a need for a supplemental back-up because there is doubt about the borrower being able to discharge their contractual responsibility. And I would say to you—this is personal experience talking now—for companies that are not viable, if you want to give them a loan guarantee, in spite of the fact that they are not economically viable, 80 percent will not do. You need to give them 115 percent loan guarantee because only a fool would give a failing company money if you are only going to get 80 percent of your principle back.

So, the idea of loan guarantees make no sense. If we take care of the essential clarity of not putting the airlines at risk for safety things beyond their capability and we take care of the imposition of the cost of shutting down the airways for 4 or 5 days, viable airline companies will be able to get money from intelligent investors because that is what intelligent investors do, is give money to people who give them a good return.

Chairman SARBANES. Chairman Greenspan.

Chairman GREENSPAN. I agree with what the Secretary said.

Chairman SARBANES. I am going to turn to Senator Dodd. As I do, let me just make this observation.

The Congress in the past had loan guarantees for Chrysler, Lockheed, and New York City. All of those loans were paid back. In fact, we, in a sense, came out ahead.

So, obviously, we have to look at the facts of this circumstance. But that program was structured in such a way that it responded to the crisis that confronted us. But it did it in a way that it worked out, so that there was no cost to the taxpayer.

Senator Dodd.

Senator DODD. Thank you, Mr. Chairman. Let me first of all, say to the panel again how much we all appreciate your statements.

Secretary O'Neill, your opening comments, if nothing else out of this hearing, I hope people listen to what you had to say regarding the notion of caution and what Chairman Greenspan has said about better to have it right than fast. There has been the sense of urgency and it is understandable. People want to respond. They want to do something. And in our desire to do something we can do some harm in the process. And your wise counsel here to those of us in Congress who want to respond to our constituencies, who want to help. And it is hard when you are in the mood to help, to sit back and wait while things sort out a bit. So I am deeply impressed with your statements, all of you. Chairman Pitt, you made the same points and that is extremely worthwhile.

I wanted to say at the opening remarks how deeply impressed I was with the work of Dick Grasso, the exchanges, the working groups, and all of you here. And I think you were right about the Monday decision. Boy, what a difference we would have had if we started on Thursday or Friday and there had been a disruption. And I think that visual of those of you who were there ringing that opening bell on Monday was tremendously important. I know the market has been bouncing around in the last couple of days. But I think those have been very important decisions and I just wanted to restate them again.

I would like to raise a couple of questions. First of all, just to follow up on the line of questioning that Phil had started. I think it is an important one on the airline industry. I would hope in your assessment of this, whether you talk about direct investments—let me put a question mark at the end of this rather than try to give you sort of an editorial comment. As you are looking at this, you are going to be looking at events beginning on Tuesday, September 11 because, frankly, there were problems, in my view, with the airline industry that existed prior to September 11. And I would hope that as we try to do things to assess or to correct problems, we are not reaching back further, in a sense, beyond that.

That is a difficult thing to do. I am not suggesting that that is an easy task. But it is going to be extremely important because your job gets a little bit easier in the point you are making. When you talked about Lockheed, and I agree with Chairman Sarbanes about this, having been here with Phil and others when we went through the New York City, Chrysler, and so forth. There you were dealing with single entities and it was easier to get your hands around.

Here you are dealing with multiples, where there are varying degrees of good management and success. Some airlines, if we walked in and said, we need help, based on who they are and who is running them, you would not need much more than that. There are others, you might not give a nickel to based on who is running them. So I would hope that as you are looking at that, you will keep in mind, we are talking about September 11 forward as a result of what has happened.

I wonder if you might as well, since we talked about the airline industry and where you are in that. In my State obviously, the insurance industry is a major factor. We have received calls from the industry themselves as to where things are. They seem fairly confident and optimistic that they can handle the situation. But I wonder, Mr. Secretary, if you would give us your assessment of the implications to the insurance industry.

Let me point out, by the way, I should have done this. We got a letter this morning, and I am sure all of us are going to be getting letters similar to this one. This letter was from a car livery service in my State, the point again that Phil was making. This car livery service is going to lose, according to Susan Garino in my State, 75 to 90 percent of sales already. This is a little company. This is a small business. I understand we are going to come in and airlines are going to be asking for help but what are we going to do for Susan Garino and her business and the 5, 10, 15 employees. Again, I am not suggesting you can do something for everybody. But you have 11,000 people at U.S. Air who lost their jobs and 30,000 at Boeing.

I would like to hear, if I could some comments about what suggestions you would make in terms of unemployment assistance to people who also have suffered here. And I realize there may be some limits. But it seems to me people who are working hard and doing this—the people in the industry, people at Canter-Fitzgerald, I have talked to some of these people and they are worried. They had limited partnerships. They have four or five kids in these situations.

Now you had a huge loss there, and this may get a little bit beyond your range of ability. But I think expressing some thoughts about this to the industry leaders as to what might be done could be helpful. So I wonder if you might just make some comments on those three or four items.

Secretary O'NEILL. Thank you, Senator. I am really impressed with your analysis of the situation.

With regard to unemployment insurance, I saw in the newspaper this morning that there is a question about New York State. I think we should respond, and we will respond as we have on other occasions where we have had strains in the unemployment insurance system. There is no doubt, together, we will work that out.

I want to go back, before I talk directly about insurance companies, to this question of the industries that are affected and the activities that are affected by this airline crisis, because I have heard from some important hotel people who are dramatically affected by the consequence of this. And if we are going to fix their problem, we have to get people back in the air. And the way to do that is the things we talked about earlier.

Again, we need to focus very clearly on where the lever points in our economy are and make sure we are not treating the secondary or tertiary consequences, but we are fixing the hole in the system that will make everything else work. And airlines are really important to that because it will put the possibility of conventions and the like back in place, many of which are being cancelled now because people are fearful and the rest of that. So I think we need to work on the clear problem and the successful ones will then begin to take care of themselves.

On the question of the insurance companies, I honestly do not think we have enough data yet. But I think again we should follow a principled approach. Where insurance companies are being called on to fulfill their contractual obligations that they knowingly and freely took, I think we should expect them to fulfill their obligations. If insurance means anything, it means the mutualization of risk and the delivery of payment when certain events take place. So I think we should be clear about that principle.

Senator DODD. My indication is that that is happening.

Secretary O'NEILL. I think absolutely, Senator. I am really proud of a lot of people I know in American business because they are stepping up to the plate and they are saying, this is the effect—Sandy Weil said the other day—this is the effect that it is going to have on our company. We contracted for it. We are going to pay it. We are not asking for somebody to, in quotes, bail us out. Again, it is testimony to how wonderful people are in this country.

There are another set of risks and I think they are more attentive to going forward than going backward in this sense. I believe for those individuals and businesses that were at ground zero, we have already, you have already taken some action. You all took the initiative in taking some action to give us resources to deal with some of those things very directly for the human beings that have been hurt or killed and for the businesses in the direct impact area.

But going forward, we are going to have to, for example, back to the airline example, we are going to have to figure out how we can mutualize, I think on a societal basis, the risk that is associated with terrorism because no insurance company in their right mind is going to leave an opening in policies they write going forward that exposes them to that risk. And I think we need to fix that.

Senator DODD. Phil and I have already been having private conversations about what we might—some suggestions, and we will be in touch with your shop about it.

Secretary O'NEILL. But I think this is the way we should think about it, Senator.

Senator GRAMM. I would just like to say that, one of the problems we have had in the past is that the insurance companies had wanted to put reserves together for a cataclysmic event.

It seems to me that one of the things we ought to look at now—I know it is after the horse is already out of the barn—is allowing insurance companies to put together this pool of their own money to deal with cataclysmic events in the future. I think that the lesson here might move us toward that solution. That is something I believe we ought to do as a good Government reform follow up.

Senator DODD. We have talked about it over the years. In fact, Dan Inouye, Ted Stevens, among others, on the west coast, we have

had a lot of huge natural disasters that have provoked this discussion. But we have entered a new world here on this. I have used up my time and I will come back. I appreciate it. I have some questions for you. I do not want you to feel alone over here, Harvey. We have some questions for you.

Chairman PITT. I am learning.

Chairman SARBANES. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman. Again, I would like to commend the witnesses for their quick and thorough response to the terrorist attacks.

You all exercised a good deal of authority in order to speed recovery and to get our markets back functioning smoothly. And particularly, I would say the Fed's quick response in injecting liquidity. It is a critical component I think of our economic stability. Do you believe that the authority at your disposal is sufficient from which you have experienced to this point? Or do you think in some way, some of that authority needs to be modified or expanded in some way? And I would like to have you each respond if you have any response to that?

Chairman GREENSPAN. I think our statutory basis is fully consistent with our needs.

Senator ALLARD. Okay.

Chairman PITT. I would just say I think we were given emergency powers after the 1987 market crash. And this is the first time we have used them. The only possibility that I can see for additional authority for us is that we have a 10 business day limitation on our ability to provide extraordinary relief. My judgment is that that is probably sound and it will in all likelihood be enough. But if it is not, then we would like the opportunity to at least let this Committee know that we think we might need the ability to expand beyond 10 business days.

Secretary O'NEILL. We are going to be coming forward quickly. As a matter of fact, I have been so tied up today, we already may have presented the Congress with some proposals for amendments of some existing laws that will give us the ability that we need to share information across all government intelligence agencies and be able to take blocking action on financial accounts. But with regard to our ability to work directly on the issues related to the market, I think we found that we had the authorities we needed on this occasion.

Senator ALLARD. There has been some news reports that terrorists may have used the stock market to profit financially from these attacks. I am curious to know what is being done to investigate these reports. And are there any thoughts that you have in regard, if this is happening, how you might address it?

Chairman PITT. Let me say, we are aware of those reports. There is a multiagency effort underway under the leadership of the Federal Bureau of Investigation. But my agency is actively investigating reports of possible terrorist activity. The difficulty, of course, is in going through a lot of records and dealing with foreign transactions as well. But I think our enforcement division, along with the Federal Bureau of Investigation, is proceeding with alacrity to try and find out whether there are any violations of law.

Secretary O'NEILL. We are working with Harvey.

Senator ALLARD. Mr. Chairman, I am finished. Thank you.

Chairman SARBANES. Good. Thanks very much, Senator Allard.

Senator Stabenow.

Senator STABENOW. Thank you, Mr. Chairman. And again, thank you all for being here.

Yesterday in Detroit, we had an excellent meeting with Secretary Evans and Secretary Chao and leaders from the automobile industry, other manufacturing CEO's, and top levels of organized labor. It was an excellent chance to talk about the manufacturing sector, what the concerns are, the needs are. And there were two issues in particular that were raised of great concern that I would appreciate your responding to.

One relates to the issue of credit. And while we know that there will be a fine line between being cautious in terms of loans to troubled industries, there is a great concern that there not be an over-reaction in terms of reclassification of credit or access to credit when in fact that is not warranted. So there is a deep concern about balancing what happens to credit availability.

And then the second thing relates to Chairman Greenspan, what you talked about in terms of the borders and the border crossings. Our industries are very much involved with just-in-time supply processes. We have hours of delays now at the border in terms of the security inspections of trucks.

And while we know that security is the top priority right now, we are deeply concerned. And Secretary O'Neill, I would welcome your thoughts regarding how the customs service is going to address this challenge. We certainly understand about the need for security. But this is becoming just a critical issue that has directly involved lay-offs of workers and very difficult challenges for our businesses.

Secretary O'NEILL. Well, thank you very much, Senator.

I have a five-page report anticipating that someone would care to ask about this question. It is up to date. It is through yesterday morning's peak hour of activity.

When this issue was first brought to my attention last Friday, the claims were that there were lines as long as 18 miles backed up at the Windsor Tunnel in Detroit, and at Port Huron in Buffalo that are the main line alternative routes into the country from Canada for the automobile companies, especially for General Motors. I was astounded that these queues had formed.

But as I investigated, what I found is that we, the Customs Service and the Treasury, had immediately on the passing of these events gone into what is called a level-one alert. That means that the intensity of investigating every vehicle that comes across the border is raised enormously from normal practice. And indeed, we had not at that point gotten to the stage of trying to balance traffic that was coming at us by letting the manufacturing companies know the length of the queues between these alternative routes.

Well, I am happy to report, and you probably know this, yesterday morning, the longest queue and the longest delay was at the Windsor Tunnel, where it was still 60 minutes and one mile. But it was the longest delay in the northern border crossings between the United States and Canada.

I think we put more resources on the issue. I think we are doing this more cleverly as we understand how to work with this heightened security concern. And as I look down the list at Port Huron yesterday morning, during the peak hours, there was a 10 minute delay with—it is interesting how precise these things are—a 300 foot queue. I wonder if somebody really measured it.

But in any event, I think we understand the problem. As a former manufacturing person, believe me, I understand just in time. It is one of the ideas that has created the huge productivity that we have had. We understand it. We are going to do everything we can to drive these numbers back to very small minute delays. But we are not going to reduce security. We feel we must make sure that we are not letting components for bombs and explosive materials come into the country. That is got to be our first priority.

But we understand and are working with the automobile companies and I guarantee you, we will get these levels down so that we are not the probable cause of any person being out of work or any manufacturing process being stopped.

Senator STABENOW. I appreciate that very much and look forward to working with you on that. We are very concerned, first, that we do focus on security, both Customs and INS. We are concerned that there has not been enough focus at the Canadian border. The focus has been at the Mexican border rather than at the Canadian border.

Secretary O'NEILL. That is true.

Senator STABENOW. But we are just very concerned that this be a sustained effort as we know that we have to sustain our security efforts, that the increased staff that is necessary to guarantee that the improvements that you have already talked about, and I am very pleased to hear that. We want to make sure that people are continuing to focus on that because this is a tremendous entree to the country in terms of commerce and critical to so many of our industries.

Secretary O'NEILL. Thank you.

Chairman SARBANES. Thank you very much, Senator Stabenow.

I would just make the observation, we can have very intense security, no lines, if we have sufficient personnel and clearing points. Now I know you cannot ramp up to that immediately, but in the long run, we can have much tighter security at our airports and at the border, a much more thorough check, not create a back-up problem, if we are just willing to make the investment in terms of increasing the number of clearance points at the facility. It seems to me sort of simple. I hope I am not missing something. I know that ramping up, getting the people is something of a problem. But other than that, there is a fairly clear solution to this problem, is there not?

Secretary O'NEILL. I think, Senator, there is an immediate need. There is no doubt that—as long as the system is designed the way it is, more people is the answer to reducing the length of the queues.

But, again, I think, as we go forward, we should not freeze in place what I would hope are temporary solutions, where, with the use of technology, for example, working with, say, Rick Wagner at General Motors, and figuring out a way that we can bond ship-

ments at the plant before they are even shipped so that we can scan them electronically and have electronic interlocks so that we know they were not opened in transit. They could go sailing through border points without further inspection.

So I think that we need to leave ourselves open to ingenuity and innovation and not simply fix the problem that we have today as though that were a permanent fix.

Chairman SARBANES. I think that is a good observation.

Senator ENZI.

Senator ENZI. Thank you, Mr. Chairman. Building a bit on what Senator Gramm said earlier about everybody, all 285 million people in the country were affected. I want to concentrate for just a minute on some of the small businesses that were affected because I am from Wyoming and under a Federal definition of small business, there is not a single big business headquartered in Wyoming.

Those small businesses are facing a lot of problems as a result of last week. Some of them are regional airlines. Some of them are charter services. Some of them are crop-spraying companies. But it gets into the peripheral businesses as well, the ones that provide meals, the ones that run little shops in airports. And even with big business, what economic incentives do you think need to be provided to avert further weakness in the economy? And that is in recognition, too, that small business is about 90 percent of the businesses of the country. And they do not have nearly the flexibility in the money market that the big companies do.

They are very limited and do not have as many sources. So are there any incentives, economic incentives, that could be provided to avert further weakness in the economy?

Secretary O'NEILL. Chairman Sarbanes has decided that I should go first.

I understand your concerns, Senator. It was really brought home to me in the impact area by seeing this story—I forget which channel it was on—and showing the effect on a deli in the shadow of where the towers had been and the impact that this has right there on the site where this person has relied on 20,000 people and the workforce there, coming in and getting pastrami on rye, and both the physical damage and the lack of business is a real thing. For many small businesses that live on pretty thin cashflow, this is a crisis of substantial proportions. I think you cannot help but, for them and for the people you are talking about in Wyoming, you cannot help but have an ache in your heart for what this means to everyone around the country, including small businesses.

My first prescription would be that we get as close back to normal as we can and as fast as we can by dealing with some of the direct things. We have discussed at length the airline industry and I think that that has a ripple effect into other kinds of businesses. We need as best we can, even though it is never going to be the same, to return to a sense of normalcy in American society.

And then I guess I would say, honestly, I think we need to do this diagnosis that underlies what both Chairman Greenspan and I have said about what, if anything, we could do that would not be a grant of relief, which we are going to have to take away from others. It is really a redistribution function to be given to somebody else. It does not really create much economic value.

We need to think hard about what is the problem. I am not so sure yet what is the problem. I was really sure before September 10 that the problem we had in our economy was related to the investment side of the equation. The consumers were quite strong. And many industry sectors were operating at close to record rates.

I went into my friendly clothing store in Pittsburgh before this and said to him, how is your business? He said, well, it is not very good. And I said, compared to what? And he said, last year was a record year and we are only running at last year's rate.

And there was a lot of that in our economy. But if you look at why we were running slow, we were running slow because the investment rates that had been in our economy in technology, particularly in telecommunications and computer technology, were off by 50 and 75 and in some cases of individual firms, off 100 percent from the year before. And so, if we had the same economic circumstances today that we had on September 10 and you said, what should we do, I would say then, and I did say then, that I think we are going through a normal correction and we should stand by. Circumstances have changed since then and I think we need to have a period of time to assess, if we are going to make an intervention, where do we make it?

Consumers have been strong, and I think consumers will be strong again when they get their feet underneath them and they start going out to dinner at night again and doing the normal amount of travel and do not spend so much time looking at the tragedy that we keep seeing over and over again. And I am not yet ready to tell you as a final judgment.

But I think if we are going to do something, one thing that would be helpful to do is some intervention perhaps that would provide some support for the market value of American enterprise. What I mean by that is this.

If you want to know what establishes the value for an individual company or for all the companies in America, we now have a very refined capital investment process. And the judgments that investors are making are judgments about the future free cashflow and what the value is of that future free cashflow. That is what determines market capitalization.

And what we are seeing right now in this move from—let me use the Dow Jones Industrials as an indicator—movement down from 11,000 or 10,500 to yesterday's close I think was 8,600, is a judgment that the future values of the discounted cashflows are 20 percent lower than they were. Now, how can we intervene to create the prospect of higher future free cashflows?

Well, one way to do it is to reduce the pressure that companies have from paying taxes. That is not my answer at this point. But as I analyze the problem of how do we create some stability for market capitalization that represents our economy, that is where I look for that purpose.

And then the second issue is what action can we take that will more quickly than would otherwise happen, restore confidence and expectations so that consumers go back to buying houses, cars, clothes, and all those other things they have an ability to do, rather than retrenching and holding back, they proceed with confidence about the future. And again, we need 10 days or 2 weeks to think

deeply about these things and not just fire the shots that we happen to have on the shelf from past thoughts about these things.

Senator ENZI. Thank you. My time has expired.

Chairman PITT. Senator, if I could just add one comment to that.

Chairman SARBANES. Chairman Pitt.

Chairman PITT. I think that the need of smaller size companies and particularly with a large local following, also requires us to think in terms of what impediments we impose on those companies to be able to raise capital in a more efficient way from people who have a better idea of what the nature of the business is, those in their locality.

I believe that there is a fair amount that the SEC can do to try to streamline the process, without obviously jeopardizing investors, but that would give smaller companies a lot more immediate access to sources of capital based on their record of performance and their prospects.

Senator ENZI. Thank you. And thanks for the concentration on small business.

Chairman SARBANES. Thanks very much, Senator Enzi.

Senator Bayh.

Senator BAYH. Thank you, Mr. Chairman.

Gentlemen, I have three questions. My first attempts to look down the road a little bit after we are through this initial period of, as Chairman Greenspan mentioned, the physical disruptions and anticipate what are the risks maybe out there for the economy and the global economy.

In particular, I would like to ask a question about Argentina and the risks of contagion in the developing world. As I understand it, the recent action by the IMF has gotten a window of opportunity for Argentina to attempt to implement its austerity program. They have an election campaign coming up and we all know how those things can be. It might not take more than an ill-advised remark on the part of one of the leading candidates to cause a run on their banks.

In any event, as I am informed, possibly as soon as 2 or 3 months, we may see what their prospects are. So my question is, if at some point in the not-too-distant future it becomes apparent that they may not be succeeding—we obviously hope that they do, but they are facing either a potential default or a devaluation—what are the risks to the global economy from such an event?

Will it be limited to Argentina, Brazil, possibly Hong Kong, that also has a peg? Or will it go beyond that? And what, if anything, should we be thinking about in terms of what action, if anything, can be done? So what are the risks and what can we do?

Secretary O'NEILL. You do not want to even think about this, do you, Alan?

[Laughter.]

This is a subject that, aside from the tragedy of last Tuesday, was on the top of our work list. And it is obviously not at the top, certainly not in the same sense that it was a week ago. But we are paying close attention because as a consequence of what happened here and the recalibration of capital markets all over the world, the Argentinean premium to U.S. Treasuries has moved back up again

to something over 1,500 basis points; over where we were on September 10.

Now I have to say at the same time that it was 1,800 basis points until the IMF intervention of a few weeks ago. And I am sure you must know, Senator, because of the depth of your question, that we in the U.S. Treasury have been working very hard with the IMF to see how we can be helpful in situations like Argentina's and like Turkey's, for that matter, and the other places that you have mentioned that are in some sense problematic, to see if there is not a way that we can invent new devices that work better and that do not result in, in effect, socializing to the world a process of bad decisions by sovereign governments. It makes a lot of sense to me.

I think we should be prepared to help and we in the United States should help developing countries around the world. But I do not think we should ask our taxpayers to pay for a continuation of obviously bad decisions by a sovereign government.

Now, one of the things that we have encountered in working with the IMF is this—that the securities that have been issued by the sovereign government in Argentina have provisions in them that make it very difficult to use leverage as a way to solve the Argentinean problem instead of tranches of \$30 billion or \$40 billion or \$50 billion worth of taxpayers' money from here and other places around the world.

And so, one of the lessons that we are learning out of this process is the need to work with governments around the world to make sure that they do not create blocking actions in their issuance of securities so that when they get into this kind of situation, it is possible to segregate the debt obligations they have and in effect take part of their debt obligations to, let me say, a AAA balance sheet, so that the IMF can use its ability to raise money at 3 percent to help a government get out of a very difficult situation, instead of giving them money to support their ability to pay 18 or 20 percent interest rates.

And as recently as Monday morning, I had breakfast with Horst Kohler from the IMF and said to him, I think now is the time that we need to take the action that has been talked about for years that has never been done. We need an agreement on an international bankruptcy law, so that we can work with governments that in effect need to go through a Chapter 11 reorganization instead of socializing the cost of bad decisions.

So, on the one hand, yes, we are paying close attention to Argentina. There may be some additional necessary action. We are working to see if we cannot create the circumstances of using leverage rather than huge amounts of additional money. And we are going to work hard and, hopefully, successfully, to put in place things that people who follow these things have known for decades we should have done. Maybe one of the consequences of this tragedy is we will finally take action on some of these things that we know we need to do.

Senator BAYH. Thank you, Mr. Secretary. You have raised a number of interesting issues. I would love to follow up on it some other time.

Chairman Sarbanes, I see my time is expired. I only got to one question.

Chairman SARBANES. Let me say this. I know you staked out three questions. That has been done in the past, of course. That does not mean you get to use all the extra time you want in order to get your three questions in.

Senator BAYH. I am new, but I am resorting to using the old tricks.

[Laughter.]

Chairman SARBANES. Why don't we do this. We will give you another question. The time has expired.

Senator BAYH. I will be very brief.

Chairman SARBANES. I want to ask Members to be brief on their questions and the panel brief in their responses. And let me outline for Members what we intend to do.

We will go to complete this panel. We will go through a round. Hopefully, we will not use a second round. I will try to forebear. I know others have questions. Because I intend to go on and do the next panel continuously, not to recess and go over after lunch. So we intend to have the exchange people who have come down, some from New York to be with us, and follow right on the heels of this panel.

Senator BAYH. Thank you, Mr. Chairman.

Chairman SARBANES. Evan, why don't you ask one more question and then I will come to Senator Hagel.

Senator BAYH. Thank you, Mr. Chairman. I will be very brief.

Mr. Secretary, I look forward to following up with you at some appropriate point. It occurs to me that these are important issues that have been with us for some time. This is a most inopportune time for further shock to the global system, and so they may come to the forefront in the next couple of months.

Chairman Greenspan, if I could just look down the road again in a few weeks. And I agree with everything that you said and the Secretary said about the need for patience. It is better to act wisely than to act quickly, as I believe you said.

Looking down the road, if we are confronted—my question gets to one of economic policy and the possibility of fiscal stimulus beyond that required to respond to the immediate tragedy, both the defense aspects and the reconstruction aspects. And here's my question.

In some of the press it is been reported that in the last couple of days, long-term interest rates have begun to rise a little bit in the anticipation of the Federal budget surplus not being as large as had been expected. And I would like to ask your opinion about, from an economic policy standpoint, the risks to the economy in the short-run, the benefits of fiscal stimulus and the potential that they would be offset by higher interest rates and the effect that that would have on capital expenditures.

So my question very directly is, is there not some short-run risk to the economy to completely abandoning fiscal discipline? And we may be confronted with some of these issues in the next several weeks.

Chairman GREENSPAN. Indeed, there is, Senator, and it is an issue which I did discuss with your colleagues in the leadership

yesterday. It is apparent, at least to some of us, that the extent to which capital gains, both realized and unrealized, on homes has contributed to consumption expenditures this year, it has been a major prop that has offset, at least in part, some of the very major contractions that we have seen in the capital goods area.

The cause of that is two-fold. One, of course, we have had a fairly extensive increase in prices of homes. But more importantly, and this is relevant to the issue of house turnover and realized capital gains in homes, which is a major factor in extraction of equity for personal consumption expenditures, that has occurred largely because mortgage interest rates have been low.

One of the elements that you point out which I found disturbing is that, in recent days, we have seen average corporate rates, BAA corporates, for example, rising fairly significantly, and while we do not have as current data on mortgage interest rates, they lock in fairly closely to the 10 year yields. This suggests to me that we have to be quite careful because until we find out whether the rise in long-term rates is merely a reversal of the fairly pronounced decline in rates that occurred in the weeks previously and, hence, is not a significant issue, or whether, as you suggest, it might be a fiscal problem, until we find that out, we are not going to know what the appropriate balance of fiscal policy, monetary policy and, indeed, all policies concerned is, because, as I indicated yesterday, we have to distinguish between gross and net stimulus.

Gross stimulus is relatively easy to calculate. We can just look at the extent to which we are expanding Federal expenditures or cutting taxes and make reasonable judgments as to what that impact is. But until we can determine what the secondary effects on long-term interest rates are and, hence, the negative effects on personal consumption expenditures and, as you point out, presumably on capital investment, we cannot make a judgment as to whether in fact a particular package of stimulus is indeed a stimulus.

And one of the reasons why I have cautioned about waiting until we can truly segregate the strictly infrastructure problems which we know are temporary as they impact on economic activity and underlying demand, we are not going to be able to get a good judgment on this particular question either.

And therefore, I would hope that within 10 days, it may be a little longer—it usually tends to turn out to be longer than we expect, but not a substantially longer period—at that point, we should be able to make the judgments as to what is equivalent to flood damage, if I may use that category and what is real economics.

And in the real economics, the crucial question is to what extent is the most recent pattern of rise in long-term corporate rates and, presumably, mortgage rates, a factor?

Senator BAYH. Thank you, Chairman Sarbanes.

Chairman SARBANES. I might note, I think that that was a very important question. I think this is a very important issue that we have to address.

Senator HAGEL.

Senator HAGEL. Mr. Chairman, thank you.

Secretary O'Neill, as you have ranged out this morning, over these unknowns as to where we go from here, what action should we take and consider, as Chairman Greenspan just noted, ref-

erencing your comments and your testimony regarding a 10 or 14 day window, and probably beyond, before we will fully be in a position to accurately assess what we need to do, with that in mind, can you tell this Committee if the Administration is considering any proposals regarding capital gains tax cuts or any other additional tax cuts?

Secretary O'NEILL. Senator, I would say that we are looking at every instrument that is ever been used before, and some that have not been used, but have been proposed.

In the spirit of what I said earlier of wanting to make sure that we do not leave anything out, but that we fit the solution to a careful diagnosis of what the real problem is. And as the Chairman said very clearly, to make sure that in the name of trying to do right, we do not actually cause damage.

And I must say to you, I do think there are instruments that have been used in the past and some that are suggested that are of dubious value. But I do not think that we should rush to judgment about that. I think, in the spirit of what you did yesterday, some in the leadership had a meeting yesterday and you reached out to Bob Rubin.

I thought that was wonderful. We need to take advantage of every smart mind that we can bring to bear on these problems, and we need to proceed in good faith without a predilection toward we already have this tool and we already know the answer, and now is an opportunity when we can go ahead and put it in place, without careful consideration of what are the consequences and does it have lasting value to the economy.

Senator HAGEL. Does that mean that that is a yes as far as the Administration is considering capital gains tax cuts?

Secretary O'NEILL. We are looking at every single one of the things that you mentioned as possible things that one might do. Plus, there are many ideas about minimum wages and the supplements for nontaxpayers. And I only offer you in the sense I want to be really clear in backing up what I said to you—we are not excluding anything.

Senator HAGEL. Thank you. Chairman Greenspan, I was very interested in the section in your testimony regarding trade. And if I might read back a couple of sentences here to frame the question.

In your testimony, you said, "As a consequence of the spontaneous and almost universal support that we have received from the world, an agreement on a new round of multilateral trade negotiations now seems more feasible. Such an outcome would lead to a stronger global market system. A successful round would not only significantly enhance world economic growth, but also answer terrorism with a firm reaffirmation to our commitment to open and free societies."

You noted, I am sure, that our U.S. trade representative, Ambassador Zoellick, had a very direct, thoughtful piece in the Washington Post op-ed section today which I happen to agree with. Would you care to reflect on this statement in a more defined way and connect, if you will, a little more of the aspect of the terrorist reference—stability in the world, economic growth, why that is good, why that might have some impact on what occurred on September 11, if we can move on beyond where we are?

Chairman GREENSPAN. Senator, I have not had a chance to read Bob Zoellick's piece, but I suspect that I could probably write it, so it may not be necessary.

[Laughter.]

Chairman SARBANES. You are assuring us that you did not write it, though, I take it.

Chairman GREENSPAN. Hardly, Senator.

Senator HAGEL. Ambassador Zoellick would be flattered.

Chairman GREENSPAN. We have developed a really major and, in many respects, extraordinary economic system on a global basis in the last 10, 15 years, resting on technology and the free movement of people, and capital goods. And most interestingly enough, during the period, we have seen increasing evidence that the interaction between economies has enhanced global growth and, indeed, the growth of everybody.

And I thought that an item I read today or yesterday, which indicated that despite the fact that we have had all of this major increase in telecommunications capabilities, airline travel has gone up very markedly, the implication being that you really still have to deal with persons face to face. It is sort of the way the human species functions.

The openness of societies, the openness of economies are very crucial for economic growth and they can be open only if they are not hampered by violence. Violence is complete destruction of the institutions of free markets and of global economic systems. Our system is based on voluntary trade by free individuals. And to the extent that we engage in that, we expand the living standards of everybody.

One thing that I was very impressed with, and I must say, if there is ever even remotely a silver lining in such an extraordinarily horrible tragedy that we confronted last week, it is the really quite surprising coming together of everybody. I have gotten letters from central bankers, finance ministers from all over the world, and I might add, Arab nations as well, all expressing concerns about what has happened and wishing us well. And I was deeply touched by these letters.

I do not know whether or not it means that when you get into a negotiating situation, that that goodwill tends to spill over. I think it does. And if it does, it means that we can make further progress in an area which I think has done so much to enhance human welfare worldwide since the end of World War II.

Senator HAGEL. Please convey to your people our appreciation. And thank you very much for your leadership and commitment to this country.

Thank you.

Chairman SARBANES. Thank you very much, Senator Hagel.

Senator Carper.

Senator CARPER. Thank you, Chairman Sarbanes.

Like Senator Bayh a few minutes ago, I had three questions. He asked one of mine.

I had wanted to delve into why long-term rates are trending up, even at the time that we are seeing short-term rates continue to trend down. I am not going to go there. He has already gone there

and we will wait a couple of weeks and we will come back and re-examine that issue.

I would like to go back to the points that at least two of you made earlier in your testimony with respect to what was going on in this economy in this country in the month of August, and the very beginning, the early part, the first 10 days of September.

Could you just revisit that for us? And I only want to take a minute or two on this.

Chairman GREENSPAN. We were still weak. In other words, we were still essentially flat, as we had been since the beginning of the year. But the elements of expansion and contraction were suggesting that at least the early stages of coming out of it were there.

One of the major elements was that the rate of inventory liquidation was very high and had not slowed. Now what we do know about inventory liquidation is if you keep going long enough, you will run inventories down to the point where you cannot continue to liquidate at that rate. And merely slowing the rate of liquidation will, of necessity, assuming consumption holds up, raise production and employment and begin the virtuous cycle which gets us out of these types of problems.

I do not want to suggest that we were about to turn and everything for the fourth quarter was going to be a major plus. That was not our view. But our view was that the elements were there. Clearly, retail sales were really surprisingly good considering the fact that this major contraction in asset values outside of the home equity area was still creating what we have called, as you know, the wealth effect in a negative form.

But the system was holding up, as I put it here I think previously in this Committee, that the American economy just kept getting battered and battered and battered and it was still standing. And indeed, as of September 10, it was still standing.

Senator CARPER. Secretary O'Neill, do you want to add or take away from that?

Secretary O'NEILL. No.

Senator CARPER. Good. All right. Chairman Pitt?

Chairman PITT. No.

Senator CARPER. Okay. All right. My second question—we seem to only focus on the need for an energy policy when we are sitting in lines to buy gasoline for our cars, when they are having rolling black-outs in California and other parts of the country.

Your views—given the events, the tragic events of last Tuesday, is the need for a comprehensive energy policy for our country, is the need diminished or enhanced?

Chairman GREENSPAN. Senator, I have always thought that it has been a very important long-term issue of this country. Our infrastructure is clearly in difficulty in the electric area, in gas pipelines, and a variety of other types of problems that we have.

What we do know is the fact that owing to technology, natural gas, which is becoming the fuel of preference pretty much around the country, because of the technology, we are draining our existing reserves at a fairly rapid pace, which means that in order just to keep the level of production at approximately 23 trillion cubic feet, we have to get ever increasing levels of drilling and expansion or find ways of importing increased amounts of natural gas, which, as

you know at the moment, is largely only Canada, and there is limits there, but there are innumerable possibilities. There is now, as you know, discussions on a pipeline coming out of Alaska, whether it is Mackenzie River or whether it is going down Alaska.

But we have to focus on looking at the longer term because these take years to do. And if we only address long-term energy infrastructure problems 3 weeks before we need an answer, we are never going to get there. At the moment, the demand for power is pretty soft because the economy is soft. That is going to change. And when it changes, unless we have a longer-term focus on how we put our infrastructure together, how we set incentives and rules to, one, maintain energy security while protecting the environment, we are going to run into trouble.

And I think unless we give it very considerable thought now, projecting 5, 6, 7 years out in the future, we are going to get sub-optimal solutions.

Senator CARPER. Other comments?

Secretary O'NEILL. I agree with what Alan said.

Senator CARPER. Thank you. Thank you very much.

Chairman SARBANES. Thank you very much, Senator Carper.

Senator Bunning.

Senator BUNNING. Thank you. I have eight questions that I would like to ask.

[Laughter.]

Most of my questions have been asked, but I have some additional ones.

Senator Allard hinted at this, but I think it needs exploring even more. There have been rumors of international short sales on the day preceding the attack on the United States by terrorists. I would like any one of you to comment. I do not want to jeopardize any investigation you might be making right now, but Secretary O'Neill or Chairman Pitt, maybe you could comment on that.

Secretary O'NEILL. As Chairman Pitt said earlier, we have a full-fledged investigation looking at the transactions that took place and we will pursue those investigations until we are satisfied one way or another that there is something to the rumors that have been about, or that in fact these were normal market transactions.

I saw in one of the papers of record in the last couple of days, someone had done an analysis and said, well, if you look at the change in the ratio of puts to calls for American Airlines 2 weeks before the event, and then a change in those ratios moving toward September 11, that you have to factor in the fact that American Airlines had a press conference or issued a press release saying that our quarterly results are going to be substantially worse than we thought. And they basically alerted the market that they were not going to produce what the market was expecting and therefore, if the share price does not move, it is not illogical for puts to significantly outnumber the calls.

The volumes that I saw were 3,000 contracts or something like that. And while there is no doubt that there was a major shift in the ratios between puts and calls, it is not clear to me yet from the analysis that is being done that there was a huge amount of money at risk. And the question I have asked is whether these contracts have been completed. I do not yet have an answer to that.

To the degree they are not completed, I would like to make sure that they do not get completed until we can satisfy ourselves that these were not done on the basis of preknowledge.

Senator BUNNING. Obviously, we know who the people are that are doing that.

Secretary O'NEILL. Well, it is not as easy as you would think because—

Senator BUNNING. In other words, you would have to go through the firm.

Secretary O'NEILL. You would start with the firm and then you start trying to trace back for whom the firm placed an order. And then, because these are very sophisticated things, you find in many cases that you have to go through 10 veils before you get to a real source. So this is tedious, complex work. Believe me, we are pursuing it.

Senator BUNNING. Chairman Pitt.

Chairman PITT. I just want to assure you, Senator, we have heard the same rumors and we have devoted, as has the FBI, substantial resources to tracking down every rumor. If there is any possibility that any nefarious activity took place in our markets, you and the American public can be sure that we are going to pursue it and bring anyone who is involved in it to justice.

Senator BUNNING. Thank you. You talked about the airlines at length and the possibility or the potential of some kind of a financial assistance. Could we also include in that financial assistance your representation of the Bush Administration's solution to some of the security problems that go with it, like carry-on baggage, like air safety security for the pilots' cabin and the \$5 doors that separate them from the passengers on the aircraft?

It is so essential for our American people to know that they are going to be safe now in reaching the destination that they took a ticket for. And so, I would insist before I ever voted for assistance for the airlines of any kind that there be in place the Administration's thoughts also on those type of security measures.

Secretary O'NEILL. Let me say maybe the simplest answer is absolutely. And you should not be concerned. You are going to see all of that. It may have even arrived this morning on Capitol Hill.

I know over the last few days, we have been working hard on this and we were solid with what we were going to propose last night. And I honestly do not know whether we have now transmitted to you what we propose to do. But all the concerns you are talking about are addressed by what we want to do.

Senator BUNNING. There is a report today on money laundering and the ability of the Federal Government to track money laundering in the support of terrorist acts. The Attorney General is quoted here.

Is there in fact a relationship between money laundering and the fact that terrorists and those who support terrorism move money illegally? And are we looking into that? At least that is what the Attorney General is saying.

Secretary O'NEILL. Well, we are looking into it. The terrorist organizations that we know about are, as they have demonstrated, clever and adroit.

I think as we chase these individuals and organizations, we are going to find that their assets would not have been caught in the general web on the work on money laundering because the money laundering tends to be a function of drug trade and other illegal activities that produce very large amounts of cash and then institutions are needed to convert large amounts of cash into book entries at banks and the rest because it is just not practical to do business or to buy other services for an illicit activity with 10 million one dollar bills. And so, that kind of activity is focused there.

I want to be careful not to reveal the intelligence information. But it appears that terrorist organizations have been funded from legitimate sources, what otherwise one would call legitimate sources.

Senator BUNNING. In other words, money-raising and all those types of things.

Secretary O'NEILL. Absolutely. And so, I think, frankly, not to get diverted, I honestly think that we can do much better on the money laundering question than we have done over the last 25 years.

Senator Levin and I have had substantial exchanges about that in another committee setting. I am determined that we are going to begin getting value from money. I do not think we have done that. I think the way we can get value from money is by, frankly, using all of the intelligence assets that we have that have been separated in our ability to use them by statute.

In the Federal Government, we need to take our own handcuffs off so that we can go after individuals. At the end of the day, for money laundering and for terrorist organizations, it is not like going after a company that does business in a legitimate way. These are very sophisticated operations. But at the end of the day, all of the money laundering activity and all of the terrorist activity goes back to individuals.

And I am convinced that the spinal column of our work needs to be identifying individuals that we suspect of doing illicit or illegal activities or being associated with terrorist activities and going after individuals in a dedicated, determined way and either putting them in jail or sending them some place where they never see the light of day again.

Senator BUNNING. First of all, I want to thank all of you for coming and giving your testimony today. And I would like to urge the Chairman, when the FOMC meets in October, that you continue your reduction in the Fed rate so that we can get our economy back on its feet.

Thank you.

Chairman SARBANES. Thank you very much, Senator Bunning.

I would note that this Committee had a hearing scheduled on money laundering for September 12. In fact, we were going to hear from the Under Secretary of the Treasury, Gurule as the lead witness. Obviously, it was not possible to carry through that hearing.

But it is now scheduled for next Wednesday. This was a hearing scheduled well before all of this happened. But we will have that issue before the Committee next Wednesday. I want to thank the panel. Obviously, we could go on at some length, but we have another panel to follow on.

I do want to say that—

Senator DODD. Mr. Chairman, before you close out.

Chairman SARBANES. Let me just withhold, then, my final remarks. Are there any further comments that Members of the Committee want to make? Or maybe questions they want to leave with the members of the panel?

Senator DODD. I will make a comment and submit some questions because we have to get to the second panel. Just very briefly, Mr. Chairman.

I raised the issue of the unemployment compensation issues and I raised it in the context of several questions. Mr. Secretary, you are nodding your head and I take that to mean that that is going to be part of the array of issues you look at on how we can help. These are the people—we talk about airlines. We need to obviously concentrate on people there. That is one. Small business obviously is part of that.

I received a notice in the middle of the hearing here that a major business in my State, one I know you are all familiar with, United Technologies Corporation, received word today from their insurance underwriters that they intend to pull their insurance they provided to United Technologies on aircraft, at least as to various domestic and international airlines. Their plans are, if that is the case, then they are going to notify these airlines not to fly. So you can begin to see the ripple effects of all of this.

I do not know, presumably when you are looking at the airline industry, that is an immediate issue that would require some attention. I do not expect you to necessarily answer it for me here today, but it adds one more wrinkle as we look at these questions.

Chairman Pitt, I just wanted to raise this, and I will submit these questions in writing. These actions that you have taken, many of them are temporary actions, ones that raise the easing of company buy-backs, the accounting firms, their ability to assist their clients to put together books and records, obviously things you had to do.

I do not disagree with any of the steps. But the question of how long those actions will be taken, what period of time, and what other actions you may be planning on taking and who is taking advantage of them. The Committee, particularly the Subcommittee, might be interested, and Senator Enzi and I on that Subcommittee on Securities might be very interested in getting more detail with you about some of those things that have occurred.

And last, Mr. Chairman, I thank you for allowing me to make these points. On the capital gains tax, I was going to raise this with Chairman Greenspan and Secretary O'Neill. I would be concerned about exacerbating any selling off, obviously, the obvious concerns that we have without providing any kind of real stimulation to the economy as a result of any kind of capital gains tax cut. I think a case can be made for some sort of credit for payroll taxes, getting back to that small business that may be affected.

If we are looking at some things that might be done, I hope you would consider something like that in the alternative, in my view. But then, again, I want to subscribe to the point that you made at the very outset of these hearings, and that is, take some time and look at all of these matters. I know you will stay in touch with us

up here, all of us who care about these issues. But, again, I thank you immensely for your testimony, all of you today.

Chairman SARBANES. Secretary O'Neill, I think your observation at the outset that this crisis not be used in an effort to take off the shelf matters that had sort of been held up or stymied or that were highly controversial, in which there were strong arguments on both sides, is very good advice.

I am moved to make that remark in view of Senator Dodd's comments about the capital gains. It seems to me at the moment we have developed a very good consensus way of working here in the Congress, and between the Congress and the Executive Branch. It seems clear to me that we want to sustain that until we move out of this period. Then, obviously, we will resume differences over what policies should be. That, after all, is what a democracy is all about. We are certainly not going to close that out altogether.

The other is, Chairman Pitt, I understand that you are monitoring very closely to see that no abuses take place with respect to the special rules you have instituted for a limited period of time. We obviously urge you to continue that.

Gentlemen, we thank you very much. I want to say that we hope at some opportune time to resume or take up the hearing on financial literacy. I have talked about that with all of you and we all agree it is an important matter in the long run and we want to come back and visit on that.

But, again, thank you very much for coming, and again our appreciation to all of the people who work with you, your staffs, who have just mounted a very dedicated effort, and the response under pressure I think has been very impressive.

Thank you very much.

Senator DODD. Thank you.

Chairman SARBANES. We will now go to our next panel, and we are very appreciative of your patience.

[Pause.]

The Committee will now turn to our second panel. I think our witnesses are very well known to the Members of the Committee, but we are very pleased that they have come to be with us on relatively short notice. I will be very quick so that we can move to their statements.

On this panel will be Richard Grasso, the Chairman and CEO of the New York Stock Exchange. I think it is clear over the last 2 weeks that he was the right man at the right time for the job he was in. In fact, former Treasury Secretary Bob Rubin was quoted in *The New York Times* this week as saying "Dick is exactly what they need now. He's ideally suited to this." And I would agree with that assessment.

Wick Simmons is relatively new as the CEO of the Nasdaq Stock Market, having been appointed to that position on February 1 of this year. But he's done an excellent job of helping to coordinate the industry's response.

And of course, few people bring more experience to market disturbances than Bob Glauber, who authored the Reagan Administration's recommendations in the aftermath of the October, 1987 market break. Many of his recommendations, which were adopted by the Congress, have come into play in this situation. So obvi-

ously, that was a very significant contribution. I want to say just one word and to try to put a little bit of this into perspective.

First of all, the New York Stock Exchange on Monday handled a record 2.37 billion shares, as I understand it, up from the previous high of 2.09 billion shares, which was back on January 4. The Nasdaq volume was a hefty 2.23 billion shares, but that is shy of its 3.1 billion share record. And I gather that the exchange yesterday exceeded the previous record, the 2.09, by a slight margin.

The point I want to make there is that it is an exceedingly impressive accomplishment, that having experienced what took place, you are able to put the markets back into shape to handle these record volumes. And our congratulations and commendations go out to you and your colleagues.

The other thing I want to point out and I think it is important, is the drop in the Dow on Monday is 14 amongst the average worst percentage declines, well short of the 23 percent plunge that we had on Monday, October 19, 1987.

Now I do not say that to minimize it because it is still significant. But just to get it into some perspective so that people can understand, that the bottom is not simply dropping out of everything.

And in the course of your remarks, I think it would be helpful if we could get some of that perspective. I think the same thing is true of the Nasdaq. I think its drop was the 11 or 12 worst percentage drop. So it is not even in the top 10.

Again, I do not want to minimize it. On the other hand, I think it is important for people to understand that in the picture, the overall picture, this is not at the very end of the spectrum in terms of what is being experienced.

Senator Allard, do you have any comment?

Senator ALLARD. No, Mr. Chairman. I am anxious to hear from the witnesses.

Chairman SARBANES. Senator Dodd.

Senator DODD. Well, just to further your comments, and to all of you, you have done a fabulous job in the last 8 or 9 days. And we have held you up here a bit this morning. We apologize to the second panel. But you can understand the tremendous interest in the questions and obviously, we have some for you as well.

Other than that, Mr. Chairman, I just wanted to commend Wick Simmons for the vision that Nasdaq has had in locating its offices in Connecticut and Maryland.

This is a very smart, wise, and thoughtful decision on the part of this organization.

[Laughter.]

I did not want to miss the opportunity to commend you for that. We thank you. It is a good job that you people have done.

Chairman SARBANES. It is not my intention to embark on a controversial matter like that.

[Laughter.]

It will not be necessary for you to answer that, Mr. Grasso.

Senator Enzi.

Senator ENZI. I included my comments in my opening statement. Thank you.

Chairman SARBANES. Thank you very much. Gentlemen, we would be happy to hear from you. Why don't we start with you, Dick, and we will go straight across the panel.

**STATEMENT OF RICHARD A. GRASSO
CHAIRMAN AND CEO, NEW YORK STOCK EXCHANGE**

Mr. GRASSO. Thank you, Chairman Sarbanes, and Senators Dodd, Allard and Enzi. And thank you, particularly, Mr. Chairman, for those very kind words. This is a collective effort, and that I am very proud of what you will hear from this panel.

I want to thank this Committee, and particularly you, Mr. Chairman, and Senators Dodd and Enzi, whom we communicated with during the middle of these discussions which led to the resumption of trading. And most importantly, to all of the Members of the Committee who I know were very supportive of the efforts, the collective efforts, I might add, of the markets and those in Government who oversee the markets.

I would be remiss, Mr. Chairman, if I did not at the outset say that all that was accomplished since the great tragedy of last Tuesday could not have taken place without the wonderful stewardship that we in the private sector had from this Committee, from you, Mr. Chairman, but also from Secretary O'Neill, Chairman Pitt, Bill McDonough, president of the New York Fed, and so many others in Government who really were inspirational.

And I would be terribly remiss if I did not say that without the incredible visit of our President, and the Herculean efforts of our mayor, the lower tip of Manhattan would today still be in chaos and I am afraid that we would not be in a position to, as we did this past Monday, resume trading.

Mr. Chairman, the attacks of September 11 will be ingrained in our national memory forever. The NYSE was not spared. Three of our members, hundreds of our member firms' employees, and a number of my partners were either killed or at risk. Thousands of others were displaced.

Everyone in our community has lost a family member, a friend, or a cherished coworker. We are all, some almost 300 million strong, impacted by this heinous act committed against our way of life. Our thoughts and prayers are with the victims of the horrific crimes that were perpetrated not only in New York City, but here in Washington at the Pentagon, and certainly over the skies in Pennsylvania.

The attack on the World Trade Center hit particularly close to home, since, as I mentioned, Mr. Chairman, 143 of my employee partners at the NYSE were housed in the twin towers.

Thank God all escaped safely.

But one thing is certain—the United States remains the greatest democracy and economic power in the history of the world, and all of us are committed to ensuring that this remains the case. Our capital markets are privileged to be a part of that tremendous economic engine. I am very proud of the resiliency that our markets have demonstrated in the face of this heinous crime committed against America and all Americans.

Never, Mr. Chairman, in my 34 years at the Exchange have I witnessed such a truly remarkable partnership evolve within min-

utes between government and industry with the sole purpose of bringing back order to our Nation and, importantly, economic stability to our capital markets.

The three principal equities markets, the senior management of financial institutions, our three principal government overseers, all came together to achieve, as never before in our history, the objectives restoring our markets, maintaining the confidence of the investing public, some 85 million strong in this great Nation and, most importantly, reassuring the general public, doing all that we could to send the message to the terrorists, to those murderers, that our Nation was unified, our economy strong, our market functional, and that they, the criminals, had indeed lost.

Last Wednesday, a meeting convened in midtown Manhattan. In attendance were SEC Chairman Harvey Pitt, who I might add, demonstrated incredible judgment and skill in making certain that the private sector, not the Government, restored the markets as quickly as possible, consistent with our objective of providing the best markets in the world.

At that meeting, Treasury was represented by Under Secretary Peter Fisher. Each of the CEO's of the major markets, Wick Simons, Sal Sadano, the CEO of the American Stock Exchange, were all in attendance, as were the CEO's of the major financial services firms. Representatives of the Federal Government's FEMA team, the State Government, our great Governor George Pataki's team on the scene, and of course, our wonderful mayor and all of the ancillary services of the city government played a major role.

The subject, very simply, Mr. Chairman, was reopening our markets in the face of incredible carnage. Anyone who has been to the financial district since the tragedy can attest to the enormity of the challenge that was faced. And I would say to those who have only seen it on the film clips, nothing can be more horrific than being there in person to understand what those wonderful people, those innocent Americans, were subjected to.

If the business of my market, Mr. Chairman—

Senator DODD. Just one point on that, and I apologize for interrupting. I am told there were people from 62 other nations who lost their lives that day.

Mr. GRASSO. I believe, that is correct, Senator.

Senator DODD. I repeat that often enough because it is important that there were Americans, but there were a lot of other people.

Mr. GRASSO. A message well delivered, Senator. This is not just the loss of American lives. Sixty-two nations from around the world had representatives in that building, or the series of buildings.

If the business of my Exchange resulted solely from the convention of 3,000 people on the trading floor, Mr. Chairman trading could have resumed immediately, since the Exchange and its technology sites, one in lower Manhattan, one in an outer borough, were unhurt by the attack.

But our business today depends on interconnectivity. Some 300 broker-dealers introduce the orders of some 85 million Americans from around the country, and certainly many more from around the world. Thus, a complex communications and data-delivery network that spans the globe and is hubbed in several sites in lower Manhattan, was faced with the challenges of restoration.

The decision to restore trading on Monday gave our telecommunications providers critical time to establish the connectivity necessary to deliver that network of services. Brokerage houses and their customers around the country depend upon multiple points of access to the world's largest and most liquid marketplace.

However, Mr. Chairman, Members of the Committee, I should add and underscore that resumption of trading on Monday, September 17, or the prior Friday or, indeed, that Thursday, would not have taken place until and unless we were all confident that the most important objective of the recovery exercise, which was the search for those who may have survived and the recovery effort for those who had perished, would in no way be compromised by the restoration of our infrastructure.

Mr. Chairman, I need not say it, but I will for the record—it is life first, stock trading second. I know, that every American shares that perspective. Mr. Chairman, the attack was a declaration of war upon America, that in my view, has united us as in no time since World War II. Judged in the light of what we have been subjected to, I believe the temporary interruption of our capital markets, will be judged by history to be insignificant.

Our prayers and heartfelt thanks must go to the brave heroes of New York City's fire and police departments, the Port Authority police and emergency medical services personnel, and so many here in the Capitol area and in Pennsylvania who put themselves at risk in the pursuit of saving lives. Their heroism was matched time and again, Mr. Chairman, by those who are now crawling through the rubble to hopefully bring another person out alive. Nothing in our business could be permitted to divert or in any way impede that effort.

Once the issues of rescue and recovery of human life were dealt with, the focus obviously became restoring and resuming the finest markets the world has ever known. Our goal was to return the market as quickly and as efficiently as possible to the historical levels of deep liquidity and investor protection that are the hallmark of America's free market system. Stated differently, our measure was to be in a position to serve the American investor with the same level of excellence they have come to expect for the past 200 years.

Together with our partners from the SEC, the Treasury and the Fed, we all knew the public's confidence in our capital markets would in part depend upon the prompt reopening of our equities markets. Unnecessary delay would mark a concession of defeat to the enemy, who sought to disrupt our ordinary course of conduct.

In the six days following the attack, Mr. Chairman, the NYSE, in a partnership with the other markets and in a truly Herculean partnership, with the city and State, FEMA officials, our central technology provider, Securities Industry Automation Corporation, Con Edison, and, most importantly, Verizon, the major communications provider for that portion of lower Manhattan, worked continuously to restore the connectivity of America's markets, those who introduce business to those markets, and those firms to their customers.

There was extensive testing literally from the moment the system went down until the moment trading resumed. Virtually every

aspect of that interconnected network, markets to firms, firms to customers, and the clearance, comparison and settlement process were indeed verified to be functioning as we would all want.

I am very proud, Mr. Chairman, of the hard work and determination of the public and private sectors, coming together in an unprecedented partnership that resulted in a resumption of trading. As you quite rightly point out, Mr. Chairman, the volume of trading during these first 3 days of the trading week has been the most active in the history of the New York Stock Exchange and approach the most active in the history of Nasdaq. The best evidence of our success in this wonderful collective effort is, as you point out Monday's most active day in our history.

Reopening of our equity markets, again, Mr. Chairman, as you point out, while down some 7 percent on Monday, was one-third the level of the decline experienced on October 19, 1987. Our equity markets are strong. They returned with strength. And while prices are down, I think the important message we have sent, Mr. Chairman, is that the platform of economic freedom in this country, the markets that we have crafted over the course of 200 years, are intact.

And those, the criminals who attacked our people and our property, while they took the lives of so many and destroyed the property of so many, they were completely unsuccessful in taking the spirit and idealism of this great country. They failed, Mr. Chairman, miserably.

Their failure was poignantly delivered to the world at about 9:33 a.m. on Monday. At that moment, after two minutes of silence and the singing of "God Bless America," less than a week following this heinous crime, representatives of New York City's fire, police, emergency medical services departments, the Port Authority police, flanked by Mayor Guliani, Governor Pataki, Senators Schumer and Clinton, Treasury Secretary O'Neill, SEC Chairman Pitt, New York Comptroller Carl McCall, and my market colleagues—Wick Simmons, Sal Sadano—so many others, watched those four brave heroes ring the opening bell and send a message to the criminals who declared war on this country that they failed.

The decline in markets continues, Mr. Chairman, and some may be concerned. But as we heard this morning from the first panel, America is strong. Our economy, while at levels perhaps not of a year or 2 years ago, is still intact and strong and will indeed provide the necessary platform for economic growth to resume at the traditional levels. I would caution those who believe the downturn to be long-term or to be a permanent phenomenon.

Eleven years ago, when Iraq moved into Kuwait, the Dow Jones declined to the 2,400 level. Some 9 years later, it was at 11,000, Mr. Chairman. Anyone who bets against this great Nation of ours is flat wrong.

The foundations of our equity market are strong, the will of our people unified. The Government has come together as never before in a common pursuit—victory. Victory will be celebrated by our people, by our economy, and ultimately, by those in the markets, Mr. Chairman.

Again, I want to thank you, Mr. Chairman, for the wonderful leadership and support that you have given as this Committee

oversees our markets. All of the Members I have either spoken with or heard from sent expressions of support to those of us in the very critical task of restoring the public and the investor confidence levels to what we have now indeed been able to accomplish.

Mr. Chairman, I want to say that all America is shining brightly and our equity markets will one day reflect that.

Thank you very much.

Chairman SARBANES. Thank you very much.

Wick.

**STATEMENT OF HARDWICK SIMMONS
CHIEF EXECUTIVE OFFICER, NASDAQ STOCK MARKET**

Mr. SIMMONS. Thank you, Mr. Chairman, Senator Dodd, Senator Allard, Senator Enzi.

For those of us who were unfortunate enough to witness the tragedy, nothing that I describe today will approach the ultimate sacrifice of thousands of Americans in New York's financial district and in Washington on September 11. We honor those who fell that day and convey our deepest sympathies to their families and their friends.

If destroying the U.S. financial markets was a mission of our enemy on September 11, that mission failed. The enormous efforts of the past week demonstrate the vitality of the U.S. capital markets. I have been part of this industry for over 35 years and I have never been prouder of my colleagues or my city than I have in the last 10 days.

As was true throughout the financial community, the men and women of Nasdaq rose to the occasion. Our New York City office at One Liberty Plaza is the worldwide headquarters of Nasdaq and sits directly across Church Street from the World Trade Center. When the tragedy struck, our first responsibility, like Dick's, was to ensure the safety of our employees. Once they were safely evacuated, we assured ourselves that our critical technology facilities were undamaged. In coordination with the SEC, and Dick, we then determined that trading in the equity markets should not open until the attack's impact was fully understood.

We then began the process of evaluating the extent of any damage to Nasdaq and our market participants in determining the necessary steps to reopen the market.

We were guided by several principles. First, we would do nothing that impeded the rescue effort. Second, we would closely coordinate all our activities with the city and with the SEC. Third, we would open our market only when the other markets and major market participants were fully prepared. Finally, we would be as open and transparent in reaching out to and assisting our members and issuers in crisis as we are any other day.

As to Nasdaq's technology, at no time during this disaster were Nasdaq's systems inoperative. At the time of the attacks, trading was suspended but Nasdaq's systems and network continued to operate. Because our primary and backup technology centers are outside Manhattan, our primary concern was our ability to connect, as Dick said, with the firms that are active in our marketplace and provide our liquidity and order flow.

Nasdaq's geographically decentralized network has several levels of redundancy designed to withstand singular-point failures. Virtually all firms are connected to Nasdaq through a set of several Nasdaq servers on their sites and through their backup centers. Each of the servers in the Nasdaq network is connected to two distinct Nasdaq connection centers.

There are more than 20 Nasdaq connection centers located throughout the United States, four in the metropolitan area alone. Each of these centers is connected to both our primary and our backup data centers.

While this may be a lengthy description, it is critical to understand that disasters such as these, and we have never seen a disaster quite like this, are not averted by hardening any single point of failure. Rather, they are avoided by having resilience built into the network through backup connections and backup vendors. This is a key learning from this tragedy.

While many of our 393 market-makers and ECN's were not physically impacted by the disaster, many others face great challenges in terms of personnel, technology, and connectivity.

That said, firms representing over 60 percent of the daily volume of Nasdaq confirmed their operational readiness by noon on Wednesday. We also reached out to the 4,300 companies that list their shares on Nasdaq. To enhance prospective liquidity, we recommended that they look at buy back programs and get board approval if necessary. And I might say here that the SEC's speedy action to ease these rules was critical to us at that point in time.

We reached out to the SEC and other Government agencies as they reached out to us. The unprecedented cooperation between all market centers with local and National Governmental authorities was continuous and excellent throughout this period.

I want to commend the Federal, State and local governments for their willingness to use their vast resources and regulatory powers to assist the markets at this time of crisis. The SEC and the City of New York were particularly instrumental in helping us open the markets as quickly and smoothly as we did. All hands were truly on deck.

In my view, the decision process to reopen the markets was a textbook example of effective cooperation among the market, Government and private industry. Telecommunication, power and employee access problems created enormous complications and risks in reopening the market. In addition, there was total unanimity among all participants that the equity markets should open as quickly as possible, but only when we could ensure that they could operate efficiently with proper liquidity available, without additional constraints and with universal access for all investors. We also believe that given the uncertainties, it was important for investor confidence that all markets open simultaneously.

After two all-hands meetings, and Dick described one of those before, and with the strong leadership and resolve of Chairman Pitt and the full support of the SEC, the Department of the Treasury and the Federal Reserve Board, the decision was made that trading should resume no later than Monday, September 17.

This decision was based on three factors. First, through the efforts of Verizon and MCI WorldCom and the affected financial

firms and markets, there was a geometric improvement of telecommunications connectivity each day. Second, the critical importance of the continuing rescue operation at the World Trade Center site made provisions for widespread physical access to financial firms and the New York Stock Exchange floor and an earlier start-up inappropriate. No one wanted to get in the way. Third, there was complete consensus that the market should not resume without widespread system connectivity testing, which could most effectively occur over the weekend.

Nasdaq employees also facilitated communication between the markets and governmental authorities. Beginning on September 12, and every day until markets reopened, we hosted frequent conference calls with all the major national market and exchange participants, including the SEC, other regulators, FEMA, the equities, futures, and options markets, and all related clearing agencies. These calls were critical to the speedy progress we made in restoring our markets.

Nasdaq employees provided technological support to over 800 Nasdaq and non-Nasdaq participants, including market makers, order entry firms, ECN's, other markets, and even some foreign markets seeking to establish their local connectivity. Many firms had to activate their disaster recovery sites, which presented special technological needs.

The testing of the systems that occurred over the last weekend played a critical role in our confidence on Monday's opening. On Saturday, from 9:30 a.m., like Dick and the other exchanges, Nasdaq brought up our trading systems as we would on a normal trading day. The testing included firms representing nearly 98 percent of a normal day's volume and was a great success. In fact, everybody took it so seriously, we literally did 20 percent of an average day's volume in the test and that is unheard of. Monday was obviously a go.

To achieve the successful reopening of the markets, Nasdaq, the Government, and the financial services industry all worked in concert. The strength of the U.S. financial markets today reflects the cumulative efforts of far-sighted leadership many years ago and it continues. It was this effort of cooperation that saw us all through those 8 days and restored the markets as we have them today.

Thank you.

Chairman SARBANES. Thank you very much.

Bob, we would be happy to hear from you.

**STATEMENT OF ROBERT R. GLAUBER, PRESIDENT AND CEO
NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.**

Mr. GLAUBER. Mr. Chairman, Senator Dodd, Senator Allard, Senator Enzi, first, Mr. Chairman, thank you for your kind comments at the outset.

On behalf of the NASD, I want to thank the Committee for inviting us to appear here on what is clearly a very vital subject.

It is vital because the barbaric acts of September 11 were an assault not only on our country, but on our financial markets. I am here to tell you how the broker-dealer industry has responded to these attacks and to describe its condition in their aftermath.

Under Federal law, the NASD is a self-regulatory organization for every one of the more than 680,000 registered representatives in the U.S. securities industry, and all 5,600 brokerage firms that are the pipeline connecting investors to the markets. We also monitor all trading on the Nasdaq stock market.

All of which has given us a graphically detailed perspective on how the industry was affected by the horrific events of September 11, and how firms are getting back on their feet. The picture we see is both inspiring and daunting.

We have found stories of heroism and humanity. One key firm, as was discussed earlier, lost 700 of its 1,000 employees, took a vote to stay open, and worked through the night to do so. Countless markets and firms, ordinarily the fiercest of competitors, have cooperated like the closest of friends. There are some telling numbers. There were 31 main offices and 30 branch offices of broker-dealers located in the World Trade Center. We have been able to communicate with almost every one of them. Much of our work in this crisis has been to fashion reasonable regulatory relief wherever and whenever appropriate.

We are also working closely with the SEC and others to ensure that the rules governing our markets and members are applied with appropriate flexibility and we are answering a great number and variety of investor concerns.

I hasten to add that in every step we have taken, we have continued to put investor protection and market integrity first. And I can report that there has not been one minute since the attacks when our ability to monitor trading on the Nasdaq stock market has been compromised. At this time we have received no reports from customers unable to locate information about their accounts. This is largely due to the existence of duplicate records located at clearing firms, service bureaus, and backup site. We have posted on our web site contact information for every one of the firms so that they can be accessed by customers.

So that has been our bread and butter. But some of what the NASD has been doing has been terribly far from routine. Some 500 floors of office space in Manhattan have been knocked out. So we have created an electronic clearinghouse where firms that now need office space are finding firms with space available.

Other firms have suffered losses so catastrophic, they have decided to become branch offices of other brokerage houses. We are smoothing the path as those firms seek to find suitable partners.

And we have undertaken one service which is truly heart-rending. NASD records are often the best source of fingerprint images for those lost in this tragedy. With appropriate safeguards, we are providing thousands of images for identification purposes to member firms, law enforcement, rescue, and recovery authorities and, of course, to the victims' families.

Senior NASD officials have spoken already to hundreds of brokerage firms in lower Manhattan. We hope soon to get through to every one of the 350 additional firms south of 14th Street. By and large, the firms are all full of courage and resolve.

But make no mistake—September 11 brought an undeniably heavy blow. We pray for all the friends and colleagues we have lost and all the families who grieve. That is why we must celebrate the

miracle which we have discussed over and over again today, and which we should never take for granted, that the most liquid, transparent and trusted markets in the world are back in business, and remember all the heroes who made that possible.

Thank you.

Chairman SARBANES. Thank you very much. We thank all the witnesses for extremely thoughtful statements.

Again, I want to commend the extraordinary cooperative effort that was undertaken within the private sector and between the private sector and the public sector. The resolve, the determination, and the judgment which were shown, I think merit the praise of all of us. You had difficult judgments to make, difficult calls, and I think you made them right. And we are back in operation.

How close to normal are the operations in terms of how effectively it is working?

Mr. GRASSO. Well, Mr. Chairman, I would say from a systemic standpoint, the best and most visible way of answering is to simply look to the volume levels we have processed. It is clearly indicative that our system is strong and the capacity that we have all invested in, which is many times the average utilization rate—in my own case, we have approximately five times our daily capacity demand embedded in our network—so the technology investments of the last dozen years have paid dividends for all markets.

I do think we would be remiss if we did not recognize, Mr. Chairman, that markets function based on the performance of technology and people, not just people in lower Manhattan, not just people on trading floors, but those in the distribution network. And it is clear that it will be an adjustment period for all Americans, and certainly for those who are in the traditional financial district, before they are able to focus as they did prior to September 11.

I believe that this effort that Bob and Wick and I have described, to bring back the marketplace, to bring back our people and our technology and focus on being the world's admired capital market that we have been, will be part of the healing process.

Mr. SIMMONS. I would only add that, the Exchanges, as you see us up here, are in better shape than many of our members, and that we still have four or five major members who had their facilities located either in the Trade Center or the World Financial Center, right next door, who are now either operating out of 650 rooms at the Sheraton uptown, or out of disaster recovery sites in Connecticut or in New Jersey. So, for them, it is not business as usual yet. For us, it is much more that way.

Chairman SARBANES. Yes.

Mr. GLAUBER. Mr. Chairman, you mentioned the 1987 stock market crash. And just as a point of comparison, in that event, 600 million shares proved more than the exchange could operate.

As you pointed out, on Monday, the New York Stock Exchange, did 2.4 billion shares. What is clear is that the lesson from 1987 was well learned by Nasdaq and by the New York Stock Exchange that capacity has to be in place so that the markets can function and investors have confidence. And it was well learned, voluntarily put in place, and served us so magnificently on that Monday.

Chairman SARBANES. I think that is an important observation.

I take it that you have taken in the Amex and they are working off of your floor. Is that correct?

Mr. GRASSO. Correct, Mr. Chairman. We took a page from the tragedy back in 1989 when the earthquake hit San Francisco, where the equity markets and the options markets, almost overnight, invited the professionals from the Pacific Stock Exchange who were based in San Francisco, it was their options business, to relocate to other markets.

Ours included—we built a floor for them. We took that basic model and immediately after the tragedy, the top management of the American Stock Exchange came to see me. I showed them some open space and they said that they wanted it. And we literally built them a trading floor between Wednesday and Saturday, which was tested and fully functional. We trade all of their equities and their exchange-traded funds products, and we relocated their options business to Philadelphia.

Mr. GLAUBER. Mr. Chairman, we are actually the owners of the Amex, that is, the NASD. And I just want to thank Dick for all the efforts he undertook. It really was in the finest traditions of commitment to each other in these times of crisis.

Chairman SARBANES. And I understood from a comment you made before that you have not, up to this point at least, encountered a difficulty in terms of the destruction of records because of the backup systems that exist. Is that correct?

Mr. GLAUBER. That is correct. Most certainly large firms have disaster recovery facilities, as has been discussed. Other firms clear through third parties, either service bureaus or clearing firms. And it is only the very smallest firms and those that have very little business with the public, where there would be any question. And to our knowledge, there have been no lost records.

Chairman SARBANES. Senator Enzi.

Senator ENZI. I would yield to Senator Dodd.

Chairman SARBANES. Senator Dodd.

Senator DODD. Thank you very much, Mr. Chairman, and I thank my colleague for doing that.

Chairman SARBANES. Senators Dodd and Enzi are the Chairman and Ranking Member of our Subcommittee on Securities.

Senator DODD. It just deserves being repeated of just the tremendous job that all of you have done. Dick, we all watched all week up there through this and it was—I love the way you put this this morning to us. Obviously, the human dimension comes first. And the fact that you made a decision that there was about all that could be done on that level and that that was going to trump any decision about opening the markets, as important as that was.

I know that was said before, but I appreciate your stating it and restating it here this morning. It is tremendously important. It just really is. What Senator Sarbanes has said, to think you have had both the largest and second-largest day in the history of the New York Stock Exchange in the last 3 days in terms of volume, and the fact that under these circumstances, you have been able to handle that volume, is a great tribute to you and your staff and to the brokers and dealers and specialists and so forth on the floor up there.

As I say, I made these calls to folks in my State, very difficult calls. I did not know what else to do except to—you know, we are down here talking about things that we are going to do legislatively. But in the meantime, I am sitting here and so I decided to make the calls to some families. I did not reach everybody in my State. I do not have numbers for everybody. But I talked to about 40 different families over a space of some 12 or 14 hours. The overwhelming majority, of course, were working for these firms that you are talking about here today. That is where they were.

There are a couple of tragic stories. A 24 year old girl down for a job interview. All excited about that new job she is going to have up there for that interview that morning. Just pure fate.

A young kid out of Columbia, from Ridgefield, Connecticut. Just so excited about his new job in the financial services sector, 23 years old. Absolutely beloved kid in his community. And at Columbia, his classmates are out with his picture up all over the city, hoping beyond hope that they might find him. Just one tale after another.

Just one point. You are here, and so I want to raise it with you here, but it is really not your jurisdiction in a legal sense. And I know these firms want to get back going, get the technology up and get the money going. But I hope in your positions of leadership you will be talking to these folks too about these families.

You talk about people who have given tremendously, their entire professional lives, in some cases here, to these firms, usually limited partnerships in some ways, something put aside there, but hardly what you would consider adequate to be raising families of four and five kids down the road. And I do not know how you do it. But for those of us sitting here who kind of want to watch, they know we have an obligation to get the business going and they have to serve their customer base, and so forth. And obviously, if there are ways that we can help in that regard, we want to.

But I hope you would convey, as I am sure you have, and they have, too, publicly, I know you have been talking about it. But you know what happens over a period of weeks and months. Memories fade a little bit and people are back and trying to get things going. And sometimes, that mother or wife out there who has four or five kids and only met anybody at a social setting, annual dinners and the like, becomes a secondary and a tertiary thought.

I just hope that they are going to remain very paramount in the minds of all of this. That human dimension, Dick, that you talked about, that as important as it is been over the last 10 days, will remain paramount in the thinking that goes on.

The only real question I have for you, other than for you to respond to that particular point, is just if you might share with us, and you do not have sort of a floor, Wick, but nonetheless, but on the floor, Dick, I always say that the last thing you want to do is be talked about on the floor of the New York Stock Exchange. You are in trouble if you are being talked about. There is always a chatter that goes on.

Try and share with us, if you would, just the mood of the people on the floor, for the last 2 or 3 days, if you can sort of capture that for us a bit here.

Mr. GRASSO. Well, Senator, you and the Committee Members will be, Mr. Chairman, very happy to learn that a large part of the discussion is about people, and not just about those in the financial community, who have suffered a loss. Many are still missing, loved ones or colleagues, and what can be done to help, as you say, Senator long after the, shall we say, glare of the camera has gone.

Although I would say to you, at least in my business, this is something that will never lose its glare. They are talking about the cops and the firemen. They are talking about the people who were running up the stairs as well as the people who were running down the stairs. They are talking about how we as a community, can wrap our arms around those who will need our strength, both in guidance and prayer and, as you say, Senator, financially.

The mood of the market on the floor is truly secondary to the concern about the human factor. Everyone is concerned about the psychological impact that has been suffered. Anyone who was in the middle of that horrific day, and certainly anyone who was in the street, to see the streets of lower Manhattan turn black, literally, at 10:30 a.m., will never forget that. And so we have to provide adequate counseling, the blanket, as my colleagues and I have called it, of human support.

As far as the market, in my closing comments, Senator, I think there is an observation that is important. As we faced the conversion of Desert Shield to Desert Storm, the market was falling from peak to trough, about 20 percent over the course of 7 months. No one was concerned about the market as much as they were concerned about the troops and the effort and the success.

And I believe that people today on the floor, to your question, and many of your constituents, of course, I see each day, they are concerned about our effort to never let this happen again. Not just to do something that is an immediate feel-good, but to find where the roots are and kill both the plant and the root, to make certain that we win in the most universal of senses.

You noted that wonderful recognition, 62 nations lost citizens, not just America. And this is about making the freest market and the freest society take global action in partnership with all of those nations to make certain that this never happens again.

The market, as we heard from the first panel, the economy will recover. It is the greatest experience on earth. It is the human factor and the safety factor.

And I am very pleased, Senator, to where you started your observations, I am very pleased that no one has ever for the moment lost sight of people first, commerce second.

You take care of the people, commerce will take care of itself.

Senator DODD. Wick or Bob, do you want to add any comment to that at all?

Mr. SIMMONS. I would only add one thing. And that is that what Dick is talking about is something we have to extend for a number of months now because what happened in New York was a physical tragedy, but it has left an emotional wound. And it is an emotional wound not simply for the people of New York, but for all people at the moment who somehow feel their security has been threatened.

When they feel their security has been threatened, they pull their hands and arms in and turn into themselves and to close

friends, what have you. And I think it is going to have, unless we speak to it, a profound effect on economic behavior for a few months.

So this very wrap-your-arms-around-people approach which Dick was talking about is something we have to think about in terms of the solutions that we provide from Washington and/or other places in the next few months because we have to repair a wound which will be difficult to do. You see that wound in the markets right now. Markets at times like this are one part reason, two or three parts emotion.

Senator DODD. Yes.

Mr. SIMMONS. And you have to let that come out. So, we have to speak to that emotion, not just simply to the facts. That in turn I think will provide the kind of equilibrium necessary for markets to start to really regain their footing.

Senator DODD. That is important. And you might, with Senator Enzi and I here, if either of you or any of you have some thoughts and ideas on what we can do as a Subcommittee obviously in conjunction with Senator Sarbanes, the Chairman of the Committee, to work at this or to come up with some ideas and thoughts on how we can play a constructive role, we would be very interested. I know I speak for both of us here in doing that.

Bob, do you have any quick comment on this at all?

Mr. GLAUBER. Just simply to say, I expect to take you up on your invitation and talk to you about things that can be done.

We have spent, as you can imagine, a lot of time talking to the leaders of a number of firms in the business. And inevitably, the talk starts about what we can do and what they are doing to continue running. And it inevitably turns to colleagues they have lost. And it reminds you over and over again that this is a human tragedy before it is a business tragedy.

Senator DODD. I thank you, too, we have done it all the way along, Senator Sarbanes, Paul Sarbanes, did it and you have done it in your opening and these comments, too, Dick, and that is those policemen, those firemen, and those EMS service people.

I know a number of people from around Stanford, Connecticut, went in to New York, as they did I know from New Jersey and elsewhere. And the thought, how many times I have heard those stories of those firemen charging up the stairs of that World Trade Center, at the 30th and 40th floor, trying to get up to deal with that immediate crisis, as people are coming down. And to know that 400 or 500 of these people, whatever the numbers are, is just incredible.

We saw the tragedy in Wooster, Massachusetts, when six firefighters lost their lives and the outpouring people felt then. And the dimension of this is just—the human aspect of this is so hard to grasp, that I do not think—in fact, I am glad we do not in some ways. The human mind is not capable in the short term of understanding the magnitude of a tragedy like this, and we are protected in a sense from that as a result of it. It will take time for us to really understand how profound an event this was.

And I think, Wick, your comments are so appropriate, that we have really got to work at this. We talk about children reacting at this. Adults need to, too. And boy, if we do not do that very well—

as you say, the wounds will heal in that sense. But the deeper aspects of this—and I hear folks today, some of our colleagues flying back here, they were the only person on the plane coming back from their respective States. An eerie feeling coming across the country.

So our confidence has been damaged, but it is coming back. And an awful lot of the reason it is coming back is because of what you three have done and as you would say very quickly, there are literally hundreds and hundreds of people that you work with every day that are restoring some confidence and faith in these markets.

And Senator Sarbanes, I thank you immensely for holding the hearing. I would have liked to have gone on that trip up to New York today to be with our other colleagues, but I thought and I think we thought here, this is maybe our most important job, to be here this day and to provide a forum so that you can tell us what is going on and what had happened, what steps are being taken, and to tell Americans out there, and people throughout the globe, we are back, we are still a little damaged, but we are getting stronger every hour. And we are going to be more vital than we ever were before as a result.

I thank all three of you.

Chairman SARBANES. Senator Enzi.

Senator ENZI. Thank you, Mr. Chairman. I too want to extend my thanks for your taking time out of what is the fourth open day of the markets to come down here and spend some time with us and with the American people. It is our hope and my belief that your appearance here today makes a difference in the market and with the country. It is reassuring to have you personally tell what has happened and what is being done.

I really appreciate the leadership that you have shown through this. The American ingenuity of putting everything back together. And because of your testimony, we have a little better idea of the complexity of what had to be done. And that miraculous testing that went on over the weekend in light of all of the things that people would have rather have done because of the tragedy. And the cool way in which you counseled each other and talked about when the appropriate time would be for opening and the way that you communicated with us on the opening so that we also could communicate to the country that it was a normal process in light of what had happened, and could give what reassurance was possible there. Without your leadership, your preparation, that would not have happened. But also, without the people that worked with you, and again, I appreciate all the communication that your staff provided to me and people that work with me.

One of the things that this tragedy has shown, I think, is the importance of every single person. It does not matter what the job is. We have learned that we are dependent on all of those other people, regardless of what their specific talent is. They are all part of a major puzzle for this country. And no place else could it come together like it did here.

I heard a pilot on a plane yesterday doing his little speech at the beginning and encouraged everybody to visit with their neighbor a little bit because they were going to be family for a few hours. If it is one thing that has come out of this tragedy, we are all finding

out that we are family and we are going back to a retail atmosphere in this country.

We have been at kind of a wholesale situation where we look at people as groups of people. And now we are looking again at them as individuals and in some instances, meeting them for the first time. So I do appreciate all you did to keep everything running and then to get it back up to full speed on Monday.

Something I am curious about is some of the costs that were involved in this to the Exchanges themselves, both the cost of being closed down and the cost of starting up.

Have any of those been put together yet? And if they have, can you give us some kind of an idea of the range of that?

Mr. GRASSO. I must say, in all candor, Senator, and I thank you for those wonderful comments, costs were never a factor. It was restoration.

If I begin to quantify at least my own market, we turn on an average day about \$46 billion which produce, an average day of about 1.2 billion shares. Our yield on that as an engine or, if you will, as a source of revenue for the Exchange, is roughly \$109,000 per year for each average daily million shares traded.

But that was never a focus. And to the credit of everyone, not just the New York Stock Exchange, but the Nasdaq, the American Stock Exchange, and all of the firms who basically opened their doors to one another, cost was never an issue.

The focus was on the American people, 85 million investors amongst them, directly using the markets, let us get them back up and running. And we will worry about the costs later on. I think that the real cost here was in human life and in human suffering. And no one can attach a financial statement to that.

Mr. SIMMONS. I would only add that, to us, it was more important, as Dick said, to get the markets up and going because, ultimately, if people lose faith in our ability to operate markets and they cannot vote financially at times like this, then we will pay a far, far greater price down the road than we pay today. So there really was no concern for that whatsoever, on member firms' part or on our parts.

I think our objective was simply to get up what it is we do, which is to provide a field of play, if you will, with complete integrity that people can trust and vote economically in.

Mr. GLAUBER. I would just echo what Wick said. The cost will be very large, both in interrupted business and in damaged and lost facilities. But people have not been thinking about that. They have been thinking about getting the markets up and running and taking care of each other and taking care of those who have been killed.

Senator ENZI. In light of this kind of a situation, another thing that is extremely easy is hindsight. I want to congratulate you for the foresight of having the off-site backups that you had that definitely aided in getting this going. In light of the tragedy, will you be looking at additional backup sites for the respective exchanges?

Mr. GRASSO. Well, Senator, I will speak to my market.

We have a distributed technology network. Prior to the tragedy, we had three pieces of real estate on which we could trade. We happened to trade only on one. We now, as a result of our new

partnership with the American Stock Exchange, have a fourth. And I think we have already had the two of us, the thought that we might take on additional alternative sites, so that, to the extent that several physical facilities are in some way damaged or incapacitated, that we never lose the ability to bring the market up.

I should point out, however, as I think you will recall from your visit to the campus recently, 92 percent of our orders, which produce about 53 percent of our daily volume, are done on our electronic commerce platform. They do not need physical convention. So, at a minimum, we could jump-start the market on that basis.

But with sites in lower Manhattan, the American Stock Exchange, and one in an outer borough, we think we have moved in the right direction, looking forward. But we do not preclude perhaps one or two more.

Mr. SIMMONS. Nasdaq has no floors, as you know. It is all electronic. But that does not mean that we do not have facilities that we have to be sure have the ability to migrate whatever it is that we process on those facilities to another facility.

Primarily, we need redundant hardware and the ability to move our software and our connectivity, our network connectivity, to different sites. And you can bet that we will put extra emphasis going forward into making sure that those sites are regularly tested, not just backup sites in name only.

Senator ENZI. Thank you. If I could just do one more quick one for Mr. Glauber.

Chairman SARBANES. Sure.

Senator ENZI. On September 14, you issued a telemarketing fraud alert. I am not sure whether the country is aware that that is a role that you play.

What has been happening in that fraud area?

Mr. GLAUBER. We did, as you say, Senator, put an alert up on our website to investors, as we have done on other issues from time to time.

What I can tell you, right now is that we have had no direct evidence specifically of that going on. But we have seen media reports regarding potential charitable scams in the wake of the tragedy. So we considered it to be a great danger and wanted to alert the investing public to it. We will just keep our eyes wide open on that issue as the days unfold.

Senator ENZI. Thank you for that role and everything else that you do and, again, thanks to the leadership of all of you.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Enzi.

Well, gentlemen, we thank you very much for coming and for your patience. I think it was important for you to be here. We know it was on a short notice that you responded to the Committee. But we thought it important to have both this panel and the previous one in terms of giving people a better understanding of what has transpired and what is going on right now.

I do want to say again that I think you and your colleagues certainly rose to the challenge. The competency and judgment that were reflected I think you can take a great measure of satisfaction in. I was very much struck by the priorities that were reflected here today in your testimony, your concern for the human dimen-

sions of this tragedy. It is enough to make you weep when you think of the talent and the dedication of the many men and women, young and old, that were caught up in this and whose lives have been taken from us, and the loss that that represents.

You are self-regulatory organizations and as I indicated to the Chairman of the SEC, we desperately hope that no one will seek to take advantage of this situation in some way. And I know you will be monitoring that very closely, as will the SEC. Hopefully, anyone inclined in that direction can put it to one side at this moment of challenge.

We look forward, as Senator Dodd indicated, in working with you and with Senator Enzi and any suggestions you have as to further measures that might be taken to strengthen the system, make it more ready and more prepared. I am struck by the fact that, as I indicated at the outset, that many of the recommendations that Bob Glauber put forward after the 1987 occurrence, came into play now and were of importance. So if there are lessons to be learned here, we stand here ready of course to work closely with you in a cooperative fashion to implement that.

Finally, I am going to impose on people for just a moment because I want to read actually into the record this very fine statement, in my view, that the New York Stock Exchange printed in Monday's *The New York Times*, which I think reflects what you all said here today, and out all across the country. And I thought it was a very sensitive and perceptive statement.

As we close, I am going to impose on people, it is not very long, but I am going to impose on people for a moment or to to actually read it into the record:

At 9:30 this morning, a bell will be rung on the floor of the New York Stock Exchange and trading will resume as it has for 209 years.

Today, that bell means more to us than just business. It will also be sounding out our deepest thanks for the bravery and sacrifice of so many who unhesitatingly came forward to give so much in this difficult time.

It will ring out our heartfelt prayers for those we have lost, their families and loved ones.

It will steel our collective determination to never let cowardice, intolerance and evil sway this great and free society from its strong and sure course toward a better tomorrow.

We will go forward from here, stronger in spirit and purpose, knowing that history has proven the ability of our financial system to survive the darkest challenges time and again.

We will do our utmost to preserve the bedrock foundations of worldwide prosperity and well-being.

And we will sound that bell and let freedom ring.

Thank you for coming today. The hearing is adjourned.

[Whereas, at 2:00 p.m., the hearing was adjourned]

[Prepared statements, response to written questions, and additional material for the record follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

We convene this hearing in an atmosphere and with a focus very different from that which we had planned. Our original intention was to begin a series of hearings on financial literacy, a critical subject for all Americans, with three principals of the financial markets—the Secretary of the Treasury, the Chairman of the Federal Reserve, and the Chairman of the Securities and Exchange Commission—to open the discussion. That subject remains a matter of great importance, and we will return to it at an appropriate time. Today, however, in the wake of last week's unspeakably savage attacks, we focus on the condition of the U.S. financial markets.

Ten days ago, we witnessed devastation that words remain inadequate to convey. Someday, perhaps, economic historians will catalog, analyze, and calculate the terrible losses inflicted by the terrorist attacks directed at New York and Washington. But some losses—families torn apart, communities devastated—will remain forever beyond calculation.

At the same time, in the wake of the attacks whose magnitude Americans could only begin to discern, we saw the immediate response of our firefighters, police officers, emergency workers, and volunteers. It was a response of astounding resolution and courage, giving the world, as a *New York Times* editorial put it, "a vision of the valor and selflessness that is the best face of America." None of us will ever forget them, and I want to pay tribute to their steady courage today.

It gave us, in addition, an inspiring vision of calm determination, of steely resolve, and of unity in a common endeavor. Their example must guide us as we turn to the challenge of rooting out terrorism. They must guide us as we carry on with our fundamental responsibilities—caring for our families, educating our children, doing our jobs in a sustained, productive manner, reinforcing the fundamental strength of our economy and the financial markets whose functioning is essential to it.

In New York, the center of the Nation's and indeed the world's financial markets, we can see a phoenix rising from the ashes. Given the wreckage in downtown Manhattan, few thought it possible that our markets would open for business on Monday. The fact that they did, and the infrastructure held—on record volume—is a tribute to thousands of committed individuals in both the private and the public sectors who went back to work under very difficult circumstances, having lost friends, colleagues, neighbors, and in some instances, family members.

Our capital markets are the most effective in the world and our witnesses are to be commended, along with so many others, for the role they played in ensuring that the United States' financial system continues to operate efficiently. New York remains the world's financial capital. The response of our witnesses to the crisis was coordinated, timely, and effective. They prevented the situation from becoming worse by taking decisive and carefully considered action.

This morning we will hear from the Secretary of the Treasury, Paul O'Neill, Chairman of the Federal Reserve Board, Alan Greenspan, Chairman of the Securities and Exchange Commission, Harvey Pitt, as well as from Chairman and CEO of the New York Stock Exchange, Richard Grasso, CEO of the Nasdaq Stock Market, Hardwick Simmons, and CEO and President of the NASD, Robert Glauber.

As Chairman of the President's Working Group on financial markets, Secretary O'Neill has led the interagency coordination of the Government's response to the attacks on our financial center. Secretary O'Neill, as the Administration's point person on both fiscal and economic matters, has also been engaged in evaluating the potential effects of last week's events on the U.S. economy and in particular, on the airline and insurance industries. Under Chairman Greenspan's leadership, the Federal Reserve took several critical steps to ensure that the financial community was able to meet its liquidity needs. In addition, the Fed coordinated policy with other central banks throughout the world including the European Central Bank, the Bank of Canada and the Bank of England, and helped coordinate the bank regulatory process here at home along with the other bank regulators. Securities and Exchange Commission Chairman Pitt has done an outstanding job in coordinating industry efforts to reopen our securities markets in the wake of last week's tragic events. Once the scope of the damage to our financial community became clear, the SEC quickly issued the relief necessary to enable issuers, exchanges and securities firms to get back into business. I look forward to hearing about our witnesses' activities in more detail shortly, when we turn to our first panel.

Our other witnesses are also well known to the Committee. It has been said that Richard Grasso, the Chairman and CEO of the New York Stock Exchange, is the right man at the right time for the job. Former Treasury Secretary Robert Rubin was quoted in *The New York Times* this week as saying "Dick is exactly what they need now. . . . He is ideally suited to this." I would agree with that assessment. Wick Simmons is relatively new as the CEO of the Nasdaq Stock Market, having been

appointed to that position on February 1, 2001, but by all accounts he has been doing an excellent job of helping to coordinate industry's response. And few people bring more experience to market disturbances than Robert Glauber, who authored the Reagan Administration's recommendations in the aftermath of the October 1987 market break.

This morning we will want to hear from our witnesses their assessment of the impact of last week's events on the condition of the financial markets as well as the impact on the economy, the adequacy of our response thus far, and what more needs to be done. I look forward to hearing their testimony.

PREPARED STATEMENT OF SENATOR MICHAEL B. ENZI

Thank you, Mr. Chairman. First of all, I would like to commend all of our witnesses today for the leadership they have shown during the past 9 days. I do not think any of us can truly appreciate the monumental task it was to open the markets Monday morning. I would also like to commend the entire financial services industry for the commitment they have shown in working with regulators and each other during this trying experience. Their reassuring tone about the stability of our markets has been much needed to calm the fears of those who invest in America's financial system.

If the stability and the security of America's markets was ever in doubt before September 11, I do not believe anyone could doubt their stability after this experience. Few financial systems could have sustained the losses of New York City, the financial capital of the world, and after only 5 days been back and running without any major glitches in the system. The quick responses by our market leaders are a major reason why systems were phased so little.

The Federal Reserve's, the SEC's, and Treasury's actions through this ordeal have been nothing less than superb. The Fed's coordination with the banking community provided the liquidity needed to maintain public confidence in our banking system and the SEC's recognition to relax specific regulatory burdens, particularly Rule 10b-18, provided a much needed buy side to the market.

While we can all applaud the actions of industry and regulators alike, we should also learn how to further prevent market fallout if, god forbid, future attacks occur against our financial markets. We must ensure the industry has backup system upon backup system in case of multiple attacks on the financial system itself. I look forward to hearing from our witnesses today to learn what systems are used to ensure no loss of data would have occurred even, if the attack had taken place during market hours.

I hope to hear the thoughts of our witnesses as how best to further strengthen our markets. Between decimalization and a depressed stock market, a number of brokerage houses and traders were already on shaky financial ground. A number of large firms had announced widespread layoffs and profits had been reduced severely. I hope to have direction as to what we, as legislators, can do to sustain the vibrancy in the industry.

I also have strong concerns with recent accounts that terrorists' cells around the world possibly gained financially by market manipulation on industries which were affected. I am anxious to learn what leads the regulators are pursuing to investigate potential illegalities. I also want to find out what can be done in the future to prevent terrorists from attempting to manipulate the market in this manner. This should be a foremost priority. It is impossible to break the backs of these terrorists organizations if they continue to be heavily funded—especially if that funding is coming from manipulation of the U.S. stock markets.

Again, Mr. Chairman, I thank you for holding this most important hearing, and I look forward to hearing from our panel.

PREPARED STATEMENT OF SENATOR RICK SANTORUM

Chairman Sarbanes, I appreciate you holding this hearing today on the status of our Nation's financial markets. Clearly, this is an extremely important hearing given the tragic terrorist events of last week which attempted to strike at the heart of our Nation's strengths: our national defense and our premiere financial systems. Proudly, I can say, those responsible for the horrific attacks were not successful.

What we have seen over the course of a week is a Nation unified in ways never imagined. From the charitable assistance across the United States to the heroic efforts of emergency and medical personnel in Washington, New York, and Pennsyl-

vania, to businesses successfully rebuilding and ready for work this past Monday. The demands have been enormous but have been answered with overwhelming charity and resolve.

We will explore in today's hearing the status of our financial markets, but I believe it is first important to commend our Government officials and industry leaders for their work in ensuring the continued strength and resilience of our markets. To Treasury Secretary O'Neill, Federal Reserve Chairman Greenspan, and SEC Chairman Pitt—your level of cooperation and prompt action to provide regulatory relief was essential to market participants and their subsequent reaction. To NYSE Chairman Grasso and Nasdaq Chairman Simmons—I commend you as well for ensuring the market was technologically capable for Monday's opening, but just as important, that investors were confident in that extensive planning and preparation.

What we have seen over the past few days in terms of trading and market activity has been relatively encouraging. While there were large point drops, record lows were not realized in terms of overall market conditions. Without a doubt, there are many challenges ahead. We must be vigilant in the short-term of daily market activities, as well investor response to interest rate cuts, and full implementation of the tax refund. In order to ensure a firm financial footing in the long-term, Congress must work with the Administration to develop an economic stimulus package that will encourage businesses to invest in our economy, restore confidence, and stimulate spending. I look forward to hearing the opinions of our distinguished witnesses this morning on what policy options they would consider to be beneficial for the near- and long-term welfare of our economy.

There are two areas, in particular, that I believe will demand a strong response from Congress: support for the airline industry, and a renewed commitment to our domestic energy security. As we know, one of the hardest hit industries as a result of last week's events has been the airlines. Pennsylvania is the largest hub for U.S. Airways employing 17,000 employees in two locations: Pittsburgh and Philadelphia. While U.S. Airways was not one of the targeted, hijacked airlines, the losses have been systemic. On Monday, the airline announced a layoff of 11,000 employees. And other airlines have followed. Assistance to the airline industry has been discussed—assistance that will certainly be needed to maintain solvency. We may also need to explore, however, other policy options that will contribute to the extended health of this industry outside of a purely financial remedy.

Finally, I am extremely concerned about lack of progress we have made on debating a national energy policy. This is vital to our domestic security, given uncertain times ahead, as we are 60 percent reliant on foreign sources for our petroleum needs. We can and should be committed to acting on this front—and acting soon.

Mr. Chairman, there are many factors that will contribute to the long-term health of our economy, and it will require the collective strength of Congress, the Administration, and the private sector to make it happen. I look forward to hearing the testimony of our witnesses, and to working with them in the coming months on these pressing matters.

PREPARED STATEMENT OF PAUL H. O'NEILL

SECRETARY, U.S. DEPARTMENT OF THE TREASURY

SEPTEMBER 20, 2001

Mr. Chairman, Senator Gramm, and Members of the Committee, I am grateful for this opportunity to appear before you today to discuss the effects of the recent terrorist attacks on our Nation's financial system and our economy.

I traveled to New York City on Monday, for the opening of the New York Stock Exchange. What I saw was a testament to America's determination and ingenuity.

The people who live and work in lower Manhattan took a horrible blow last week. And yet, amid the rubble of broken buildings and the sorrow of lost friends and colleagues, the New York Stock Exchange not only opened and ran smoothly, but handled a record number of transactions on Monday. I can think of no better testament to the resiliency of America and her economy. Among the countless heroes of the past week are the workers in New York's financial district—from the brokers and traders to the police and firemen to the phone and water utility workers. In the face of enormous personal and human losses, these professionals worked around the clock to put our Nation's financial center back into operation. I am grateful for their efforts and for the cooperation with which they have worked with the Treasury Department and the Federal financial regulatory agencies.

As noted by observers from Alexis de Tocqueville forward, the United States is a Nation of commerce. While horrifying it is perhaps not surprising that unseen enemies seeking to strike at America's very heart would choose to attack her most visible financial center. It was surely their hope and intention that the economic engine of the world would be paralyzed as a result. We denied the terrorists any such victory. Our economy—our prosperity—will not be destroyed.

The economy of the United States remains strong and resilient. And the Nation's financial markets, in spite of having sustained a terrible blow, continue to function. Shares are being bought and sold on the stock markets, firms are able to borrow funds for continued operation in the Nation's debt markets. Of course this is not to say that the events of September 11 have had no impact on our financial community. But thanks to careful planning and preparation for potential disaster, and swift action by both the private and public sectors, the United States' financial system is operating with only temporary disruption.

Private Sector Response

Private financial institutions and firms have long planned for the possibility of disruption to the flow of information and damage to their operational facilities by implementing programs of redundancy. Records, as required by both prudent business practice and by law, are routinely duplicated and stored off site. Contingency plans enabled firms to restart their operations quickly from alternate locations. We know from conversations with company representatives and press reports that firms whose facilities were totally destroyed and who tragically lost many key staff in the destruction of the World Trade Center were back in operation within days making certain that the country's financial markets continued to function.

Federal Regulatory Response

Federal regulatory agencies have also been swift to act. They have taken a number of steps to ensure the continued functioning of the Nation's financial markets, including measures to assist customers of financial institutions, ensure market liquidity, and stabilize securities and futures markets.

Customer Relief

The Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) have issued guidance to their regulated institutions requesting that they undertake prudent efforts to work with customers affected by Tuesday's attacks, or by resulting delays in mail delivery. These efforts include waiving late payment fees, extending loan terms, restructuring debt obligations, and easing credit terms where a customer has a demonstrable need resulting from the events of September 11.

Market Liquidity

To preserve market liquidity, the banking industry has provided hundreds of billions of dollars in liquidity to their customers, including credit extended under standby letters of credit and credit commitments. As a result, banks' balance sheets have grown as these new loans have been made. In turn, financial regulators have facilitated market liquidity in two important ways. First, the Federal Reserve has met the demand for liquidity by banks through unprecedented credit extension involving the discount window, the repurchase market, and other tools available to it. Second, the Federal banking agencies issued a joint statement to all banks that recognizes the potential for these actions to inflate banks' balance sheets and hence erode banks' capital ratios. The statement announces the agencies' desire to work with those banks for which such credit extension may lead to a temporary decline in capital ratios.

Government Securities/Fixed Income Markets

The Treasury has successfully adjusted its financing needs in the face of the recent market disruptions. The Treasury and other regulatory agencies worked closely with the Bond Market Association (BMA) to reestablish an active and orderly fixed income market. Following a recommendation by the BMA to close the market on Wednesday, September 12, trading resumed in all fixed income markets on Thursday, September 13. Further, Treasury was able to execute a successful auction of 3 and 6 month Treasury bills on Monday, September 17, with 24 of the 25 primary dealers participating.

Equity Markets

The Securities and Exchange Commission (SEC) undertook a number of regulatory relief measures in preparation for Monday's reopening of the stock markets. These included providing relief under Rule 10b-18 which provides a safe harbor from liability for manipulation in connection with purchases by an issuer of its own stock. The relief gives issuers greater latitude to provide buy side liquidity this week. The SEC also announced limited relief under Section 16(b) to facilitate purchases this week by persons subject to that statute.

Futures Markets

The Commodity Futures Trading Commission (CFTC) worked closely with the SEC and bank regulators to address intermarket coordination issues and facilitate an orderly reopening of equity futures markets when the primary stock markets reopened. The CFTC continues to be in close communication with the New York futures exchanges to support their efforts toward safe, orderly resumption of trading in contracts based on energy products, metals, agricultural, and other commodities.

Treasury Response

In addition to the steps taken through Treasury's financial regulatory bureaus, the Department has also responded to the events of September 11 on the tax and law enforcement fronts.

IRS Tax Guidance

The IRS and Treasury are providing relief to all taxpayers directly affected by the terrorist attacks. This relief includes extending the time for filing tax returns and extending the time for making estimated tax payments. The victims of the airplane crashes (on the ground and in the air), taxpayers whose workplace or whose records are in a disaster area, relief workers, and taxpayers in all five boroughs of New York City and in Arlington County, Virginia (the location of the Pentagon) are among those who qualify for this relief. In addition, the IRS and Treasury are providing relief to taxpayers unable to meet tax deposit obligations because of damage or injury inflicted by the terrorist attack.

Furthermore, for all taxpayers, the IRS has postponed until September 24 the due date for all Federal tax obligations (other than deposits of Federal taxes) that otherwise would be due between September 10 and September 24. This postponement includes, for example, the filing of returns and the payment of estimated taxes.

Enforcement

Treasury has established an interagency team dedicated to the disruption of terrorist fundraising. The team is designed to increase our ability to identify foreign terrorist groups, assess their sources and methods of fundraising, and provide information that will make clear to law enforcement officials how terrorist funds are moved. This team will ultimately be transformed into a permanent Foreign Terrorist Asset Tracking Center in the Treasury Department's Office of Foreign Asset Control (OFAC). This is an extraordinary effort that illustrates the Treasury Department's creativity in developing new ways to combat terrorists.

Economic Impact

The destruction of much of the Nation's financial center in Manhattan may cause short-term problems and uncertainty. And the personal toll has been staggering for the companies and people in New York's financial district.

We cannot say at this very preliminary stage exactly how these events will affect the economy. We do not have sound estimates of the dollar amount of damage that occurred in New York. Yet I would call on the Committee, and indeed all Americans, to be cautious in assessing the forthcoming short-term economic reports. This past week Americans have been making charitable donations, giving blood, gathering in prayer, and otherwise demonstrating our national unity and our determination to overcome threats facing our country. While these activities may not appear in any economic report, they are a reminder of our humanity and strength as a country.

Consider our financial system. The markets will inevitably have ups and downs. Americans should not react with fear that the stock market has declined but rather marvel in that it is open, that for every seller there is a buyer. Financial firms that suffered devastating losses are operating, serving customers, clearing transactions, and ensuring that the financial lifeblood of our economy continues to flow.

On Sunday, the President called us back to work. While the country is back to work, it still grieves. But in the long-term the economy remains sound. Although

the financial sector has been damaged, it continues to function. Moreover, the economy's productive capacity is fully intact, ready for whatever trials lie ahead.

Indeed, America's dynamic economy is not located in any one place. Innovation and productivity are found in every factory and farm, every laboratory, every financial institution, every small business, and every home office across America. That spirit cannot be destroyed.

We at Treasury have been inundated with phone calls from people wanting to know what they can do to help. Every American can make a contribution by helping to keep our economy strong by getting back to work and going forward with the spending plans they made before September 11. Each and every American should know that by continuing to work and spend, they are doing their part to restore our Nation and our economy in the wake of last week's attack.

We have every reason to maintain our confidence in the U.S. economy. No evil, no matter how unspeakable, can destroy America's productive spirit. If anything, this evil act strengthens our resolve to be the most free, most vibrant economy in the world.

PREPARED STATEMENT OF ALAN GREENSPAN

CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SEPTEMBER 20, 2001

I would like to begin my remarks this morning by noting how deeply saddened I and my Federal Reserve colleagues are that so many talented and productive people from so many walks of life were lost or irreparably harmed last week. Although we are here today to discuss some of the immediate economic and financial implications of that tragedy, we are all too aware that the topic we discuss will be a mere footnote.

The terrorism of September 11 will, doubtless, have significant effects on the U.S. economy over the short-term. An enormous effort will be required on the part of many to cope with the human and physical destruction. But as we struggle to make sense of our profound loss and its immediate consequences for the economy, we must not lose sight of our longer-run prospects, which have not been significantly diminished by these terrible events.

Over the past couple of decades, the American economy has become increasingly resilient to shocks. Deregulated financial markets, far more flexible labor markets, and, more recently, the major advances in information technology have enhanced our ability to absorb disruptions and recover.

In the past, our economy has quickly regained its previous levels following the devastation of hurricanes, earthquakes, floods, and myriad other natural disasters that periodically batter various regions of our country. Although the trauma of September 11 shares some of the characteristics with such disruptions, the differences are important. In contrast to natural disasters, last week's events are of far greater concern because they strike at the roots of our free society, one aspect of which is our market-driven economy. All modern economies require the confidence that free-market institutions are firmly in place and that commitments made today by market participants will be honored not only tomorrow, but for years into the future. The greater the degree of confidence in the state of future markets, the greater the level of long-term investment. The shock of September 11, by markedly raising the degree of uncertainty about the future, has the potential to result, for a time, in a pronounced disengagement from future commitments. And that, in the short run, would imply a lessened current level of activity. Indeed, much economic activity ground to a halt last week.

But the foundations of our free society remain sound, and I am confident that we will recover and prosper as we have in the past. As a consequence of the spontaneous and almost universal support that we received from around the world, an agreement on a new round of multilateral trade negotiations now seems more feasible. Such an outcome would lead to a stronger global market system. A successful round would not only significantly enhance world economic growth but also answer terrorism with a firm reaffirmation of our commitment to open and free societies.

But before the recovery process gets under way, stability will need to be restored to the American economy and to others around the world. Arguably, that stability was only barely becoming evident in the United States in the period immediately preceding the acts of terrorism. Aggregate measures of production, employment, and business spending continued to be weak.

That said, consumer spending moved higher in August and appeared to be reasonably well maintained in the first part of September. Industry analysts suggest that motor vehicle sales were running close to August levels, and chain store sales were only modestly lower. Purchasing managers had noted an improvement in the orders picture in August. Moreover, the dramatic rate of decline in profits was slowing. To be sure, these signs were tentative but, on the whole, encouraging.

During the past week, of course, the level of activity has declined. The shock is most evident in consumer markets where many potential purchasers stayed riveted to their televisions and away from shopping malls. Both motor vehicle sales and sales at major chain stores, some of our most current information on consumer spending, appear to have fallen off noticeably. And, the airline and travel industries have suffered severe cutbacks.

The unprecedented shutdown of American air travel and tightened border restrictions have induced dramatic curtailments of production at some establishments with tight just-in-time supply chain practices. Automakers, for example, are reported to have pared production and even closed some plants in the past week, largely owing to supply shortages, though, doubtless, short-term demand uncertainties have also played a part.

The effect of the devastating attack on the World Trade Center on financial markets was pronounced, as telecommunications and trading capacities were severely impaired. But the markets are mostly functioning now, albeit in some cases using contingency arrangements and the infrastructure will be rapidly restored.

For a brief time, the terrorist attack markedly disrupted payment transfers that are usually measured in terms of trillions of dollars each day. Many obligors temporarily lost their technical ability to pay on time, leaving those counting on receiving payments caught short. The pressures ultimately ended up concentrated in banks. Those needs were met by the Federal Reserve, both through record lending at the discount window and through an extraordinary infusion of funds through open market operations. To facilitate the channeling of dollar liquidity to foreign financial institutions operating in the United States, 30 day currency swap lines were arranged with major central banks, again in record volumes. It was essential in such an environment to meet all appropriate demands for dollar liquidity. As the financial markets and payment infrastructure return to normal, loans are being repaid, and the temporarily bloated balance sheet of the Federal Reserve is now shrinking back to normal.

Nobody has the capacity to fathom fully how the tragedy of September 11 will play out. But in the weeks ahead, as the shock wears off, we should be able to better gauge how the ongoing dynamics of these events are influencing the immediate economic outlook.

For the longer term, prospects for continued rapid technological advance and associated faster productivity growth are scarcely diminished. Those prospects, born of the ingenuity of our people and the strength of our system, fortify a promising future for our free Nation.

PREPARED STATEMENT OF HARVEY L. PITT
 CHAIRMAN, U.S. SECURITIES AND EXCHANGE COMMISSION

SEPTEMBER 20, 2001

I appreciate the opportunity to offer the Securities and Exchange Commission's perspective on the condition of our financial markets in the aftermath of the recent terrorist attacks in New York and Washington.

September 11 was a terrible, dark day. The terrorists who attacked our Nation's Capital and the World's Financial Capital, inflicted irreparable losses of innocent lives and caused untold physical damage; but they did not destroy or diminish our Nation's strength, courage or resolve. We grieve for our lost friends and relatives; yet the Nation's response to this catastrophe has been extraordinary. On Monday, all the Nation's securities markets resumed trading, a trenchant symbol to the perpetrators of the heinous attacks.

As the events of last week and this week demonstrate, our capital markets are the strongest and most resilient in the world. They reflect the character of our great Nation. When tragedy struck last week, our Nation responded by coming together. Police, firefighters, emergency medical personnel, members of the military, and civilians participated in rescue efforts to save those injured in the attacks.

This same spirit of cooperation imbued the tremendous efforts by so many in the private and public sectors to restore the vitality of all of our securities markets less

than one week after the attacks. Over the past week and a half, we have been privileged to work with the major U.S. securities markets and securities firms, industry associations, service providers, and Federal and State Government bodies—all of whom have provided leadership and invincible perspicacity in this crisis.

An attack of this nature and magnitude cannot be viewed in a vacuum. Accordingly, we coordinated our efforts with the larger Federal Government of which we are a part, and we worked cooperatively with the industry we oversee. We had two critical roles: first, to assist in implementing national policy; and second, to facilitate the responses planned by the securities industry, and ensure that those responses were consistent with the protection of investors and the national interest.

Upon learning of the World Trade Center disaster, we established communications with the organized securities markets and participated in frequent telephonic meetings of the President's Working Group on Financial Markets. In addition, we provided information to the White House and Members of our Senate and House oversight committees. In times of crisis, we believe strongly that our obligation is to keep all those with a role as fully informed as possible.

Although the Commission has broad power over the securities markets and the professionals who operate in them, we viewed our role as ensuring that the markets and market professionals acted in unison and in furtherance of the interests of public investors. Thus, we listened first and responded only when the industry reached consensus. The overarching national goal was to have our securities markets up and running as soon as practicable, but only if there was no threat to public investors.

All the major markets and market participants decided, as a safety precaution, to remain closed for trading on Tuesday. We supported this decision as a responsible approach, and immediately issued a press release to notify investors of the change in normal trading patterns and to assure them this was a temporary phenomenon.

Concerned about safety and the well being of so many in the industry, we spoke with heads of firms to extend sympathy and express our hope that their employees would be accounted for, safe and sound. Sadly, many people employed in the securities industry are missing or dead, and we will mourn their loss. Fortunately, many personnel miraculously were evacuated to safety and reunited with loved ones.

Thereafter, our staff and we continued monitoring developments and helped coordinate efforts to assess the situation and reopen the securities markets. Commission staff contacted broker-dealers located in lower Manhattan, as well as other major broker-dealers, investment advisers, mutual funds, and service providers, to determine their status and operational capability. We also remained in regular communication with the clearing agencies to assure they remained functional and to assess any connectivity problems with their participants. Virtually all securities firms that suffered significant physical damage were able to relocate to alternative disaster recovery sites. We believe that much of the securities industry's success in meeting the demands of this unspeakable horror was due to the hard work and effort made to prepare for Y2K. Securities firms had contingency plans and emergency procedures designed to manage the conversion to 2001, never imagining that these plans and procedures would see them through the events of September 11.

We arranged to meet in Manhattan with the leadership of major markets, securities firms, banks, and clearing agencies, along with the offices of the Governor and Mayor, Con Edison and Verizon, and the New York Fed, to assess the situation and determine readiness for a reopening of the markets. Our role in arranging this meeting was not to dictate a decision, but to facilitate a market solution. The decision on when to reopen the markets was made by the private sector—the markets and major market participants—in consultation with the Commission. We held daily joint press conferences to keep the public fully and timely advised.

At meetings beginning the afternoon of Wednesday, September 12, this group unanimously agreed that, while every effort should be made to reopen the markets as soon as possible, there should be no interference with rescue efforts or jeopardy to securities industry personnel returning to work. Additional considerations included whether employees would have access to their workplaces and whether there would be adequate and reliable electric power and telecommunications services.

Connectivity among various market participants was also a significant concern. The industry representatives unanimously decided last Wednesday that the equities and options markets should not reopen Thursday, but rather Friday or Monday at the latest. Having participated in the discussions that produced that decision, our agency was confident the right decision had been reached under the circumstances.

On Thursday, the fixed income markets and futures markets successfully resumed trading. Although trading was relatively light and the number of market participants smaller than usual, no major problems were reported. When connectivity problems with clearing banks affected the government securities clearing agency, we closely monitored these problems in conjunction with the Federal Reserve.

We traveled to the financial district on Thursday morning to examine the facilities of the New York Stock Exchange and to meet with service providers (Verizon and Con Edison), as well as representatives of the Mayor's Office involved with rescue efforts, and representatives of the New York Fed. When industry representatives met later that day, they unanimously decided to reopen equities and options markets on Monday, not Friday.

Deferring the resumption of trading until Monday permitted extensive testing by market participants of systems operability and connectivity. Throughout the weekend, Commission staff worked with market and industry participants to monitor and coordinate extensive systems testing by the exchanges, clearing agencies, and market participants. We offered assistance to every affected firm in New York City, and provided staff where requested. The Commission also sent staff to the major markets to monitor the testing. Participants in those tests included the New York Stock Exchange, and its specialists, floor brokers, and member firms; Nasdaq and its market makers and market participants, including ECNs; regional exchanges; DTCC; and SIAC. Fortunately, only minor problems arose and those were readily resolved. The tests ultimately verified that all systems were sound and operational.

We received invaluable assistance from FEMA, the Mayor's Office of Emergency Management, and New York State officials in assuring that market participants needing electrical or communications services received appropriate priority. They also kept us apprised of their assessment of the structural integrity of damaged buildings in the financial district.

From a regulatory perspective, last week the Commission reached out to major market participants, both directly and through industry groups such as the Securities Industry Association and the Bond Market Association, to determine whether it could provide appropriate temporary regulatory relief to facilitate the reopening of fair and orderly markets. The New York Stock Exchange, the NASD, Treasury and other regulators undertook similar outreach efforts.

As a result, the Commission for the first time invoked its emergency powers under Securities Exchange Act Section 12(k) and issued several orders and an interpretive release to ease certain regulatory restrictions temporarily.

A cornerstone of this relief was facilitating the ability of public companies to repurchase their own shares, thereby providing greater liquidity. Specifically, the Commission, for 5 business days following the resumption of trading, has permitted issuers to repurchase their securities without meeting the volume and timing restrictions that ordinarily would apply under our Rule 10b-18 safe harbor, and to do so without adverse accounting consequences. Our efforts were aided by the announcements of major public companies of significant buy-back programs. We also permitted brokerage firms to calculate net capital without considering the days the markets were closed. We allowed mutual funds, to borrow from and lend to related parties to facilitate liquidity.

We also responded to physical ramifications of the World Trade Center attacks. We provided temporary relief permitting Amex specialists to function like floor brokers under certain conditions due to space limitations of the Amex's relocated operations to the NYSE floor. We issued an interpretive release permitting accounting firms to provide bookkeeping services to, and help recover records for, audit clients with offices in and around the World Trade Center. To facilitate mutual fund board meetings, we relaxed in person meeting requirements.

While we broadly solicited and considered suggestions for appropriate temporary relief, we did not implement all suggestion we received, such as prohibiting all short selling, moving to 10 cent quotation increments, and extending settlement cycles in the equity and corporate debt markets. We did, however, take action—not intervention wherever we could to be responsive to industry concerns and to facilitate a smooth reopening of the markets.

We also made ourselves accessible to investors and market participants. We believe that government is and must be a service industry. Last week, the SEC placed additional information for investors and market participants on our website regarding market recovery efforts. Investors were invited to e-mail questions to our staff at a new hotline, help@sec.gov. We established a special toll-free investor telephone line. For the first time in our history, we also established dedicated telephone lines for inquiries from market participants and for firms seeking additional relief. And, we assured industry participants that if they came to us with their problems, we would work with them to find solutions, without after-the-fact recriminations, except in cases of venal conduct.

Fortunately, on Monday, September 17, all U.S. securities markets resumed trading without incident. Our staff closely monitored the resumption of trading. We had staff available at the markets to provide assistance where necessary and made staff available on-site at each major broker-dealer that wanted our assistance. Commis-

sion staff remained in constant contact with major market participants throughout the day, and was available to address any regulatory issues that arose. America's investors once again were able to rely upon the strength and soundness of our markets. All market and investor protections were squarely in place. The markets did not give way to panic selling; delays in resuming trading gave investors time to reflect and to speak up about the strength of America's markets. And, the world heard them.

Over the last week and a half, we have witnessed an extraordinary level of cooperation among market participants in the face of this tragedy. For instance, the New York Stock Exchange opened a portion of its floor to accommodate trading in equities and exchange-traded funds by the Amex. In addition, the Philadelphia Stock Exchange is permitting Amex options members to continue their livelihood by temporarily trading in the Philadelphia Stock Exchange's trading crowds. In less than a week, the entire options business of the Amex was moved to the Phlx. People worked day and night to ensure trading in those options opened on Monday without a hitch and that all options series were once again available to America's investors. Brokerage firms that 2 weeks ago looked for every advantage over their competitors are today providing space to competitors that suffered as a result of the attacks. The most competitive markets in the world are also the most compassionate.

Our Northeast Regional Office at 7 World Trade Center was destroyed in the aftermath of the attacks. First and foremost, we have been focused on the human side of this tragedy and confirming the safety and well-being of all of our employees. We are gratified to report that every one of our employees has been accounted for and is safe. The staff of the office is convening offsite today to begin the healing and emotional recovery process, and we are making sure that counseling is readily available to anyone who wants it. As far as the work of the office is concerned, we have moved quickly to get things back on track. We have already identified new office space and hope to begin occupancy as early as October 1. Until then, the United States Attorney's Office in Brooklyn has generously provided us with office space for use by Northeast Regional Office supervisors to oversee the office's recovery efforts. Within two days of the attack, we had retrieved all documents stored electronically and had commenced a review of every single investigation and case currently underway in the office with the twin aims of ensuring that we do not miss any imminent deadlines and of developing a plan for completing our investigations and cases in timely fashion. While our review has not been completed, we are optimistic that we will not lose any significant investigation or case as a result of the loss of our building. No one whom we have sued or whose conduct we have been investigating should for a single moment doubt our resolve to continue our pursuit of justice in every such matter.

There also will not be any serious long-term impact on the Commission's oversight of securities firms located in the New York area. The Commission's records related to examinations of all securities firms are maintained electronically in a central database, and were unaffected by the tragedy. Electronic copies of our examination reports and deficiency letters are maintained off-site for investment advisers, investment companies, broker-dealers, and transfer agents. Records relating to open examinations will be reconstructed from records that exist at registrants' offices and from other sources. We are planning to utilize examination staff from other offices (Boston, Philadelphia, and Washington, DC) and to work with self-regulatory organizations (the NYSE and NASDR) to ensure that examination cycles are fulfilled and that appropriate examination oversight is maintained. We are very mindful of the disruption to many firms' operations and records, and are ensuring reasonable accommodation to requests for extensions of time for on-site examinations or to produce records and other information.

We can be justifiably proud of our market participants and the way they have performed. Everyone pulled together to overcome this disaster and successfully reopen the U.S. equities and options markets. Americans demonstrated continued confidence in our markets. With the momentum built from this experience, we will move forward to make our markets even stronger, more transparent, and more vibrant. As a Nation, and as an agency, we will not allow terrorists to destroy our spirit or impede our mission.

On behalf of the Commission, I appreciate the opportunity to submit our views on the current state of the markets in America. I am happy to try to respond to any questions the Committee may have.

PREPARED STATEMENT OF HARDWICK SIMMONS

CHIEF EXECUTIVE OFFICER, NASDAQ STOCK MARKET

SEPTEMBER 20, 2001

Thank you Mr. Chairman and Members of the Committee for inviting me here today.

On behalf of the 1,228 employees of the Nasdaq Stock Market, and the thousand of Nasdaq trading participants and Nasdaq issuers, I would like to review our response to the horrendous acts of September 11, 2001.

Nothing I describe today will approach the ultimate sacrifice of the thousands of Americans in New York's financial district and in Washington on that terrible day. We honor those who fell that day, and convey our deepest sympathies to their families and friends.

If destroying the U.S. financial markets was a mission of our enemy on September 11, their mission failed. The enormous efforts of the past week demonstrate the vitality of the U.S. capital markets. I have been part of this industry for over 30 years, and I have never been prouder of all my colleagues or my city than in the last 10 days.

I. Our Immediate Actions in Response to Events of September 11

As was true throughout the financial community, the men and women of Nasdaq rose to the occasion. Our New York City office at One Liberty Plaza is the world-wide headquarters of Nasdaq and sits directly across the street from the World Trade Center. When the tragedy struck, our first responsibility was to ensure the safety of our employees. Once they were safely evacuated, we assured ourselves that our critical technology facilities were undamaged. In coordination with the SEC and the New York Stock Exchange, we then determined that trading in the equity markets should not open until the attack's impacts were fully understood. Through Nasdaq's Crisis Management processes, Nasdaq senior management was in constant contact with our primary operations centers—even as we evacuated ground zero and set-up temporary operations in downtown and then Midtown Manhattan.

We then began the process of evaluating the extent of any damage to Nasdaq and our market participants and determining the necessary steps to reopen the market. We were guided by several principles: First, we would do nothing that impeded the rescue effort. Second, we would closely coordinate all our activities with the SEC. Third, we would open our market only when the other markets and major market participants were fully prepared. Finally, we would be as open and transparent in reaching out to and assisting our members and issuers in crisis as we are in our every day operations.

As to Nasdaq's technology, at no time during this disaster were Nasdaq's systems inoperative. At the time of the attacks, trading was suspended but Nasdaq's systems and network continued to operate. Because our primary and backup technology centers are outside Manhattan, our primary concern related to our ability to connect with the firms that are active in our marketplace and bring liquidity and order flow. In fact, Nasdaq continued to operate systems later than normal on Tuesday to allow firms manual access for reconciliation and mutual fund pricing and related activities. Nasdaq's systems operated virtually continuously throughout the rest of the week to allow firms to test connectivity.

Nasdaq's geographically decentralized network has several levels of redundancies, which are specifically designed to withstand these types of catastrophic events. Virtually all firms are connected to Nasdaq through a set of several Nasdaq servers on their sites and in their backup centers. Each of the servers in the Nasdaq network is connected to two distinct Nasdaq connection centers.

There are more than 20 Nasdaq connection centers located throughout the United States—4 in the NY metropolitan area. Each of these centers is connected to both our primary and backup data centers. Additionally, while WorldCom provides the overall management of our network, each of our critical connections is backed up by another vendor so as to offer resiliency against a systemic vendor failure.

While this may be a lengthy description, it is critical to understand that disasters such as these are not averted by hardening any single point of failure, rather they are avoided by having resilience built into the network through backup connections and backup vendors. This is a key learning from this tragedy.

Therefore, one early priority was to reach out to the 393 market makers and ECNs that are part of the Nasdaq market. We spoke to each of these firms. We asked: Can you connect with our network? Can your employees get to the market terminals? What problems do you foresee?

While many of our firms were not physically impacted by the disaster, many others faced great challenges, in terms of personnel, technology and connectivity.

Nasdaq staff worked around the clock to provide whatever support we could. This included providing alternative trading facilities, provisioning backup facilities with new equipment, testing backup and new network connections, providing assistance in acquiring emergency resources and gaining access to critical facilities in lower Manhattan.

We also reached out to the 4,322 companies that list their shares on Nasdaq. We asked: To enhance prospective liquidity, we recommended they look at buy back programs and get board approval if necessary.

We reached out to the SEC and other Government agencies, as they reached out to us. The unprecedented cooperation between all market centers with local and national governmental authorities was continuous and excellent.

I want to commend the Federal, State and local governments for their willingness to use their vast resources and regulatory powers to assist the markets in this time of crisis. The SEC and the City of New York were particularly instrumental in helping us open the markets as quickly and as smoothly as we did. All hands were truly "on deck."

II. The Decision to Reopen on September 17

In my view, the decision process to reopen the markets was a textbook example of effective cooperation among the Government, markets, and private industry. Telecommunication, power, and employee access problems created enormous complications and risks in reopening the market. In addition, there was total unanimity among all participants that the equity markets should open as quickly as possible, but only when we could ensure that they could operate efficiently with proper liquidity available, without additional constraints and with universal access for investors. We also believed that, given the uncertainties, it was important for investor confidence that all equity markets open simultaneously.

After two all hands meetings, and with the strong leadership and resolve of Chairman Pitt and the full support of the SEC, Department of Treasury and Federal Reserve Board, the decision was made that trading should resume no later than Monday, September 17. This decision was based on three primary factors. First, through the efforts of Verizon, MCI WorldCom, and the affected financial firms and markets, there was a geometric improvement of telecommunications connectivity each day. Second, the critical importance of the continuing rescue operation at the World Trade Center site made provisions for widespread physical access to financial firms and the New York Stock Exchange floor and an earlier startup inappropriate. No one wanted to get in the way. Third, there was complete consensus that the markets should not resume without widespread system connectivity testing which could most effectively occur over the weekend. The successful resumption of trading on Monday would be an important signal to our citizens and the world. It was accomplished by extraordinary efforts by thousands of financial market and brokerage firm employees who collectively are owed an enormous debt of gratitude.

The SEC reassured the markets, indicated appropriate relaxation of regulatory constraints, and focused the markets on critical systems. The SEC's speedy action to ease the rules governing corporate stock repurchases was especially helpful and responsive to the needs of Nasdaq-listed companies with which we were working.

III. The Nasdaq Response Team

Nasdaq employees also facilitated communication between the markets and governmental authorities. Beginning on September 12, and every day until the markets reopened, we hosted frequent conference calls with all major national market and exchange participants, including the SEC, other regulators, the Federal Emergency Management Agency, the equity, futures, and options markets, and all related clearing agencies. These calls were critical to the speedy progress we made in restoring our markets.

Nasdaq employees provided technological support to over 800 Nasdaq and non-Nasdaq participants including market makers, order entry firms, ECNs, other markets, and even some foreign markets seeking to reestablish their local connectivity. Many firms had to activate disaster recovery sites, which presented special technological needs.

The testing of systems that occurred over last weekend played a critical role in our confidence in the opening on Monday. On Saturday, from 9:30 a.m. to 4 p.m., Nasdaq brought up our trading systems as we would on a normal trading day. The testing included firms representing nearly 98 percent of a normal day's volume. The focus of the testing was on the ability of all market participants to connect to and interact with one another. We also simulated a circuit breaker trading halt to ensure that it could be properly implemented if necessary. We kept a toll-free line

open for members all day so that they could communicate with us and troubleshoot problems.

We were extremely pleased that the testing was successful. Nearly all participants were connected to Nasdaq within the first two hours. Over 2,400 of the 2,700 Nasdaq servers at market maker locations were operational. Because most market makers have multiple servers, Nasdaq was confident that it had a successful test of virtually all market participants. On Sunday, Nasdaq trading systems also were available from 9:30 a.m. to noon for follow-up testing to ensure that any outstanding issues identified on Saturday were in fact resolved.

In the last 3 days we have traded almost 6 billion shares on the Nasdaq Stock Market. We have maintained connectivity with all our market makers, 110 of which are located in the New York City area. Everyone who wanted to be represented in the market had access. Throughout this week, investors in New York City have simultaneously and instantaneously received the same trading information as investors in San Francisco, despite the heavy trading volumes. To make trading appear ordinary, the effort behind the scenes was extraordinary.

IV. Conclusion

To achieve the successful reopening of the markets, Nasdaq, the Government and the financial services industry all worked in concert. The strength of the U.S. financial markets today reflects the cumulative efforts of far-sighted leadership many years ago. Of course, the Congress laid the foundation with the passage and careful oversight of the U.S. securities laws.

Our markets are not static. They will and should continue to evolve. We should not allow events of September 11 to delay or detract from this evolution, which is critical to preserving the competitive position of U.S. markets in the global economy.

The U.S. financial industry has demonstrated it is resilient and resolve to maintain the most liquid and stable markets in the face of terrible challenges, and clearly Nasdaq's trading network has demonstrated its unique value as a part of this infrastructure.

Our work is not done. We will have new challenges in the coming months. I am confident that the men and women of Nasdaq and the securities industry will act with the same grace under pressure that characterized their performance since the events of September 11.

PREPARED STATEMENT OF ROBERT R. GLAUBER

PRESIDENT AND CHIEF EXECUTIVE OFFICER
NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

SEPTEMBER 20, 2001

Introduction

Good morning, Mr. Chairman, Senator Gramm, Members of the Committee. On behalf of the NASD, I want to thank the Committee for this opportunity to testify—and to commend you for holding a timely hearing on a vital subject.

It is vital because the barbaric attacks of September 11 were an assault not only on our country, but also on our financial markets. I am here to tell you how the broker-dealer industry has responded to these attacks, and the condition we have found it to be in in their aftermath.

As a self-regulatory organization, or SRO, the National Association of Securities Dealers is not a trade association. Rather, under Federal law, our job for more than 6 decades has been to help write and administer the day-to-day rules that govern the U.S. securities industry—and every one of the more than 5,600 registered broker-dealers in the United States today. We also monitor every trade executed on The Nasdaq Stock Market, the largest volume market in the world. And Mr. Chairman, I am proud to say that at no time during the past week and a half was our ability to monitor Nasdaq trading or protect investors compromised.

This role has given us a graphically detailed perspective on how firms were affected by the horrific events of September 11, and how they are getting back on their feet. The picture we have found is inspiring. It is also daunting.

The first time I testified before the Banking Committee was in 1988 and I was here to present the Brady Commission Report on the market break of 1987. While no one could foresee the current situation and the national tragedy we find ourselves discussing today, it is nonetheless significant that what we learned from the crisis in 1987 made the markets stronger, in much the same way I am confident this crisis will make the markets stronger. The lessons learned in 1987 have pro-

vided a solid foundation for what the industry has done in this crisis—and that has enabled us to cope with the events of September 11 and their aftermath.

State of the Firms

There were 31 main offices of broker dealer firms located in the World Trade Center. There were 30 branch offices of firms located there as well. Over 350 additional firms have offices in the affected area south of 14th Street in Manhattan. Many of these firms have performed herculean tasks to get up and running. One key firm lost 700 of its 1,000 employees; took a vote to stay open; and worked through the night to do so. Countless markets and firms—ordinarily the fiercest of competitors—have cooperated like the closest of friends.

Over the last 9 days, we have focused on providing a range of critical services to these firms. Our first and most immediate task last week was to do our best to contact the member firms with offices in the World Trade Center. From that first phone call onward, we have offered these firms our support and assistance. Our senior management staff has almost completed calls to every member firm in southern Manhattan.

The cost of the week long business interruption and physical dislocation compounded with investors pulling back from the market will create a challenging set of circumstances under which these firms will have to operate. We have talked to hundreds of firms and they have serious concerns. Our job is to help them continue operations while at the same time maintaining the safety of the markets.

Regulatory Relief

Last week, we gave firms relief from registration provisions and information barrier requirements that permitted firms in the affected area to staff their trading desks in time for the markets' reopening on Monday. We also granted regulatory relief from certain technical rules, including the 3 quote rule, in recognition of the overtaxed communications system in New York. While keeping investor protection foremost, we coordinated with the SEC on many issues, including trading halts while the market was closed.

We will grant 120 additional days to all registered representatives to fulfill continuing education requirements and will likewise extend test windows by 120 days. Anyone reapplying to work in the industry that misses the 2 year window because of this week's events will be granted a waiver. We have negotiated fee refunds for test no shows or cancellations with Prometric, our testing and continuing education subcontractor. We are granting blanket extensions until October 1 on any regulatory requests, and stand prepared to extend these as necessary.

Information Clearinghouse

In addition to providing this relief from regulations without compromising the protection of investors, we have served as the focal point for reliable information for firms and investors. We have worked to keep member firms informed about what the rules are and what type of relief is available.

We created an office space clearinghouse network where the firms that need office space because of the tragedy can find firms that have space available. Some firms, as a result of their World Trade Center office destruction, seek to become branch offices of other firms. We are assisting those offices in that endeavor.

One other service is done with a truly heavy heart. NASD maintains a vast database that contains fingerprint images for registered employees and the back office employees if they have access to books and records or to funds or securities of customers. So we are providing such images for identification purposes to member firms; law enforcement, rescue and recovery authorities; and families to aid in the search for missing persons and in identifying victims.

In addition to providing aid to the firms, we are answering questions from investors unsure about the status of their brokers and portfolios. Especially important are customers worried about their accounts with a broker in New York impacted by the crisis. For these investors, we have posted the customer contact information on the NASD website. Where no contact information is available, we have directed customers to a NASD Call Center that can then provide them with individualized research and assistance.

On September 14, we issued a telemarketing fraud alert that warns brokerage firms and investors of the scams that, sadly, have already sprung up to take advantage of Americans' urge to contribute to relief efforts.

Role of Clearing Firms In the Orderly Resumption of the Markets

Many of our members are clearing firms—companies that arrange for the settlement of securities transactions. Of the approximately 120 clearing firms we regulate, the substantial majority is located outside of lower Manhattan. As such, most

NASD clearing firms were not directly affected by the World Trade Center attack. Many of these firms were closed on Tuesday with their operations department staff returning on Wednesday and working through Friday. In several instances, firms reported that they used the time to stress-test accounts and contact customers about account balances. The most frequent contacts were to customers with margin accounts whose equity appeared to be approaching the maintenance margin requirement, or customers with accounts that were anticipated to decline in value upon the resumption of equity trading in the U.S. This latter group included investors whose accounts, for example, contained airline stocks.

While the NASD cannot attest to these practices at all clearing firms, it is clear from our contact with member firms that many of them instituted the policies and procedures that I have just described. We believe that the widespread dispersal of member firms across the United States, coupled with the firms' implementation of their risk management policies, substantially contributed to the orderly manner in which trading resumed on Monday, September 17, 2001.

Continuing to Self Regulate

Through this entire crisis, NASD has continued to operate as a self-regulatory organization. We have continued to protect the integrity of the securities markets and promote investor confidence. Our services are provided primarily through our subsidiaries—NASD Regulation, Inc., and NASD Dispute Resolution, Inc. The NASD also owns the American Stock Exchange and holds a significant, though minority, stake in the Nasdaq stock market.

We have over 1,500 employees devoted exclusively to carrying out our regulatory and enforcement responsibilities. We carry out our mandate from our Washington headquarters and 14 district offices located in major cities throughout the country. Our New York District office, located at One Liberty Plaza, is our largest office and has been closed temporarily. We have relocated examiners from our New York office to our New Jersey, Long Island, and Philadelphia District Offices. By doing this we were able to continuously support and serve our members and our markets. We are working on reestablishing, as quickly as possible, our physical presence in New York at an alternate location.

Conclusion

I want to thank the Committee for this opportunity to describe our industry's efforts to help get the markets back into full operation. As the industry's self-regulator of broker dealers, we think it is important to express pride and confidence in the markets' reopening; to express sorrow for those lost; and to remind investors, our members and our markets that we are here to provide answers, information and help.

Make no mistake, these attacks were an assault on our financial markets as well as our Nation. We will ensure their ultimate failure by working together to maintain the most liquid, transparent, and trusted markets in the world.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR STABENOW
FROM ALAN GREENSPAN**

Q.1. As we look ahead to the next few quarters, I know one thing that will be on the minds of a lot of CEOs is the issue of corporate credit. Financial institutions are going to have to walk a fine line between being cautious on loans to troubled industries and turning off access to credit too quickly. Would you please comment on this challenge?

A.1. Despite recent increases in loan delinquencies and charge-offs, commercial banks remain highly profitable and well capitalized and thus have the capacity to lend. In making lending decisions, however, banks must take account of the current and expected economic environment. In reaction to perceptions of a more uncertain economy, significant fractions of banks have reported in surveys tightening their lending standards, increasing fees and spreads of loan rates over the cost of funds, and hiking nonprice loan terms such as collateral requirements since the middle of 2000. The surveys suggest that banks have become particularly cautious about lending to more risky borrowers.

Even though banks apparently have become less accommodative lenders, they have continued to provide credit. For example, in the immediate aftermath of the terrorist attacks, many companies turned to banks when their ability to raise funds in the money and capital markets was temporarily disrupted. In addition, in our most recent surveys of lending officers, several banks indicated a willingness to work with customers that were affected adversely by the atrocities of September 11.

More generally, it is in banks' own interest to preserve the viability of their customers if at all possible, and thus they presumably are willing to lend even to troubled industries if it can be done prudently. In a competitive banking industry such as ours, and one that has a capacity to lend, there is good reason to expect that credit will be available to all reasonable credit risks.

Richard A. Grasso
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September 24, 2001

The Honorable Paul S. Sarbanes
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Phil Gramm
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Sarbanes and Senator Gramm:

I am writing to request that the following description of several of the numerous tests conducted by the New York Stock Exchange in preparation for the September 17, 2001 opening be printed in the record of the hearing held on September 20, 2001 and appear at the conclusion of the testimony that I presented:

- Tested close to 1000 Member Firm data communication lines into the NYSE's Common Message Switch System (CMS).
- Made more than 100 system, communication, and database changes to permit member firms to reconnect with the Exchange's systems.
- Worked with market data vendors to ensure the flow of market data information to the NYSE floor.
- Conducted connectivity tests with member firms for the NYSE Online Comparison System.
- Prepared for the trading of American Stock Exchange equities at two unused posts on the NYSE floor.
- In support of the National Market Systems (NMS) and the Options Price Reporting Authority (OPRA), verified the connectivity for all participants and vendors by providing continuous and extensive test time to all exchanges and recipients.
- Assisted several exchanges and vendors in reestablishing their connectivity to the NMS and OPRA systems.

Thank you for your assistance.

Sincerely yours,

